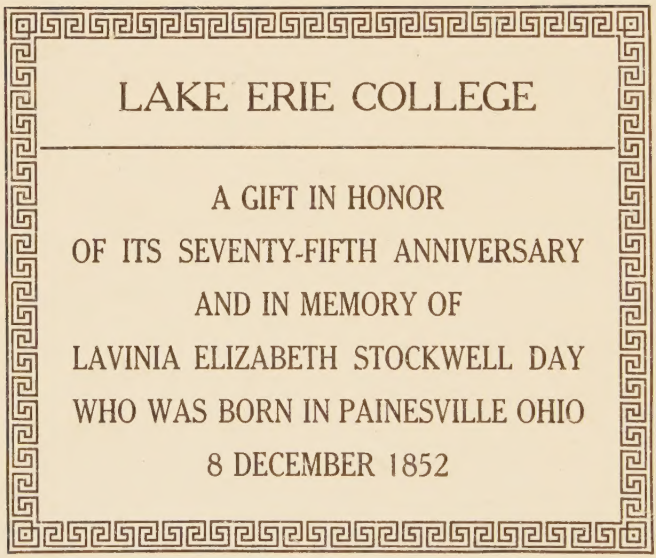
LAKE ERIE COLLEGE
A GIFT IN HONOR
OF ITS SEVENTY-FIFTH ANNIVERSARY
AND IN MEMORY OF
LAVINIA ELIZABETH STOCKWELL DAY
WHO WAS BORN IN PAINESVILLE OHIO
8 DECEMBER 1852

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SWEDEN, NORWAY, DENMARK, AND ICELAND IN THE WORLD WAR

ECONOMIC AND SOCIAL HISTORY OF THE WORLD WAR

JAMES T. SHOTWELL, LL.D., *General Editor.*

TRANSLATED AND ABRIDGED SERIES

The present volume is an abridgment of the Scandinavian Series prepared under the editorial direction of Professor Harald Westergaard, with Professor Eli F. Heckscher as editor for Sweden.
The original series, published under the direction of the Yale University Press, consists of the following monographs grouped into an individual volume for each country:

SWEDEN: INLEDANDE ÖVERSIKT. Eli F. Heckscher.
LIVSMEDELSPOLITIK OCH LIVSMEDELSFÖRSÖRJNING 1914–1922. Carl Mannerfelt.
INDUSTRIEN OCH DESS REGLERING 1914–1923. Olof Edström.
SOCIALA FÖRHÅLLANDEN OCH SOCIALPOLITIK 1914–1925:
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HANDELS-OCH SJÖFARTSPOLITIK UNDER VÄRLDSKRIGET. Kurt Bergendal.

NORWAY: NORGE OG VERDENSKRIGEN. Wilhelm Keilhau.

DENMARK: DANMARK UNDER DEN STORE KRIG. Einar Cohn.

ICELAND: ISLAND UNDER OG EFTER VERDENSKRIGEN. Thorsteinn Thorsteinsson.

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EDITOR'S PREFACE

In the autumn of 1914, when the scientific study of the effects of war upon modern life passed suddenly from theory to history, the Division of Economics and History of the Carnegie Endowment for International Peace proposed to adjust the program of its researches to the new and altered problems which the War presented. The existing program, which had been prepared as the result of a conference of economists held at Berne in 1911, and which dealt with the facts then at hand, had just begun to show the quality of its contributions; but for many reasons it could no longer be followed out. A plan was therefore drawn up at the request of the Director of the Division, in which it was proposed, by means of an historical survey, to attempt to measure the economic cost of the War and the displacement which it was causing in the processes of civilization. Such an "Economic and Social History of the World War," it was felt, if undertaken by men of judicial temper and adequate training, might ultimately, by reason of its scientific obligations to truth, furnish data for the forming of sound public opinion, and thus contribute fundamentally toward the aims of an institution dedicated to the cause of international peace.

The need for such an analysis, conceived and executed in the spirit of historical research, was increasingly obvious as the War developed, releasing complex forces of national life not only for the vast process of destruction, but also for the stimulation of new capacities for production. This new economic activity, which under normal conditions of peace might have been a gain to society, and the surprising capacity exhibited by the belligerent nations for enduring long and increasing loss—often while presenting the outward semblance of new prosperity—made necessary a reconsideration of the whole field of war economics. A double obligation was therefore placed upon the Division of Economics and History. It was obliged to concentrate its work upon the problem thus presented, and to study it as a whole; in other words, to apply to it the tests and disciplines of history. Just as the War itself was a single event, though penetrating by seemingly unconnected ways to the remotest parts of the world, so the analysis of it must be developed

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according to a plan at once all embracing and yet adjustable to the practical limits of the available data.

During the actual progress of the War, however, the execution of this plan for a scientific and objective study of war economics proved impossible in any large and authoritative way. Incidental studies and surveys of portions of the field could be made and were made under the direction of the Division, but it was impossible to undertake a general history for obvious reasons. In the first place, an authoritative statement of the resources of belligerents bore directly on the conduct of armies in the field. The result was to remove as far as possible from scrutiny those data of the economic life of the countries at war which would ordinarily, in time of peace, be readily available for investigation. In addition to this difficulty of consulting documents, collaborators competent to deal with them were for the most part called into national service in the belligerent countries and so were unavailable for research. The plan for a war history was therefore postponed until conditions should arise which would make possible not only access to essential documents, but also the coöperation of economists, historians, and men of affairs in the nations, chiefly concerned, whose joint work would not be misunderstood either in purpose or in content.

Upon the termination of the War, the Endowment once more took up the original plan, and it was found with but slight modification to be applicable to the situation. Work was begun in the summer and autumn of 1918. In the first place a final conference of the Advisory Board of Economists of the Division of Economics and History was held in Paris, which limited itself to planning a series of short preliminary surveys of special fields. Since, however, the purely preliminary character of such studies was further emphasized by the fact that they were directed more especially toward those problems which were then fronting Europe as questions of urgency, it was considered best not to treat them as part of the general survey, but rather as of contemporary value in the period of war settlement. It was clear that not only could no general program be laid down *a priori* by this conference as a whole, but that a new and more highly specialized research organization than that already existing would be needed to undertake the Economic and Social History of the World War, one based more upon national grounds in the first instance, and less upon purely international coöperation. Until the

facts of national history could be ascertained, it would be impossible to proceed with comparative analysis; and the different national histories were themselves of almost baffling intricacy and variety. Consequently the former European Committee of Research was dissolved, and in its place it was decided to erect an Editorial Board in each of the larger countries and to nominate special editors in the smaller ones, who should concentrate, for the present at least, upon their own economic and social war history.

The nomination of these boards by the General Editor was the first step taken in every country where the work has begun. And if any justification were needed for the plan of the Endowment, it at once may be found in the lists of those, distinguished in scholarship or in public affairs, who have accepted the responsibility of editorship. This responsibility is by no means light, involving as it does the adaptation of the general editorial plan to the varying demands of national circumstances or methods of work; and the measure of success attained is due to the generous and earnest coöperation of those in charge in each country.

Once the editorial organization was established, there could be little doubt as to the first step which should be taken in each instance toward the actual preparation of the history. Without documents there can be no history. The essential records of the War, local as well as central, have therefore to be preserved and to be made available for research in so far as is compatible with public interest. But this archival task is a very great one, belonging of right to the Governments and other owners of historical sources and not to the historian or economist who proposes to use them. It is an obligation of ownership; for all such documents are public trust. The collaborators on this section of the war history, therefore, working within their own field as researchers, could only survey the situation as they found it and report their findings in the forms of guides or manuals; and perhaps, by stimulating a comparison of methods, help to further the adoption of those found to be most practical. In every country, therefore, this was the point of departure for actual work; although special monographs have not been written in every instance.

The first stage of the work upon the War History, dealing with little more than the externals of archives, seemed for a while to exhaust the possibilities of research, and had the plan of the history been limited to research based upon official documents, little more

could have been done, for once documents have been labeled "secret" few government officials can be found with sufficient courage or initiative to break open the seal. Thus vast masses of source material essential for the historian were effectively placed beyond his reach, although much of it was quite harmless from any point of view. While war conditions thus continued to hamper research, and were likely to do so for many years to come, some alternative had to be found.

Fortunately such an alternative was at hand in the narrative, amply supported by documentary evidence, of those who had played some part in the conduct of affairs during the War, or who, as close observers in privileged positions, were able to record from first- or at least secondhand knowledge the economic history of different phases of the Great War, and of its effect upon society. Thus a series of monographs was planned consisting for the most part of unofficial yet authoritative statements, descriptive or historical, which may best be described as about halfway between memoirs and bluebooks. These monographs make up the main body of the work assigned so far. They are not limited to contemporary war-time studies; for the economic history of the War must deal with a longer period than that of the actual fighting. It must cover the years of "deflation" as well, at least sufficiently to secure some fairer measure of the economic displacement than is possible in purely contemporary judgments.

With this phase of the work, the editorial problems assumed a new aspect. The series of monographs had to be planned primarily with regard to the availability of contributors, rather than of source material as in the case of most histories; for the contributors themselves controlled the sources. This in turn involved a new attitude toward those two ideals which historians have sought to emphasize, consistency and objectivity. In order to bring out the chief contribution of each writer it was impossible to keep within narrowly logical outlines; facts would have to be repeated in different settings and seen from different angles, and sections included which do not lie within the strict limits of history; and absolute objectivity could not be obtained in every part. Under the stress of controversy or apology, partial views would here and there find their expression. But these views are in some instances an intrinsic part of the history itself, contemporary measurements of facts as significant as the

facts with which they deal. Moreover, the work as a whole is planned to furnish its own corrective; and where it does not, others will.

In addition to the monographic treatment of source material, a number of studies by specialists are already in preparation, dealing with technical or limited subjects, historical or statistical. These monographs also partake to some extent of the nature of first-hand material, registering as they do the data of history close enough to the source to permit verification in ways impossible later. But they also belong to that constructive process by which history passes from analysis to synthesis. The process is a long and difficult one, however, and work upon it has only just begun. To quote an apt characterization; in the first stages of a history like this, one is only "picking cotton." The tangled threads of events have still to be woven into the pattern of history; and for this creative and constructive work different plans and organizations may be needed.

In a work which is the product of so complex and varied coöperation as this, it is impossible to indicate in any but a most general way the apportionment of responsibility of editors and authors for the contents of the different monographs. For the plan of the History as a whole and its effective execution the General Editor is responsible; but the arrangement of the detailed programs of study has been largely the work of the different Editorial Boards and divisional Editors, who have also read the manuscripts prepared under their direction. The acceptance of a monograph in this series, however, does not commit the editors to the opinions or conclusions of the authors. Like other editors, they are asked to vouch for the scientific merit, the appropriateness and usefulness of the volumes admitted to the series; but the authors are naturally free to make their individual contributions in their own way. In like manner the publication of the monographs does not commit the Endowment to agreement with any specific conclusions which may be expressed therein. The responsibility of the Endowment is to History itself—an obligation not to avoid but to secure and preserve variant narratives and points of view, in so far as they are essential for the understanding of the War as a whole.

* * * * *

This volume covers a field of special interest. It deals for the most part with the history of the nations of Northern Europe which maintained their neutrality throughout the whole of the World War, in

spite, or perhaps in part because, of the fact that their geographical situation placed them between the great belligerents. From the standpoint of the nations at war, they formed a sort of political No Man's Land into which neither belligerent could advance beyond a certain distance. But while the war-time position of these neutral states was precarious and the maintenance of their rights difficult and sometimes even impossible, nevertheless the fact that they remained at peace saved them from the direct waste of war, in that they did not themselves destroy the production which they placed at the disposal of the belligerents. With a stimulus to production heightened by the competition of their belligerent neighbors bidding against each other in their markets, and with the belligerents assuming much of the insurance risk against destruction by their warring competitors, it might seem as though these neutral states would have only prosperity to record as the effect of the War upon their economic life. The studies gathered together in this volume show how far removed from reality is such a theory of prosperity of neutrals in the event of a war among the Great Powers. Whatever may have been the case in the past when the economy of nations was more self-contained, the interdependence of national business and trade has grown to such an extent that the industry of war, for war is also an industry, is equally dependent upon other nations than those actually engaged in it for the raw materials, finances, or supplies needed for the belligerents. Moreover, so insistent is the demand of the belligerent for the supplies upon which the issues of peace or victory depend that the neutral which supplies the materials can hardly hope to escape a far-reaching disarrangement of its economic structure. The result of this is that when the crisis is over and the war is ended, the neutral finds itself faced with liquidation by the sudden collapse of its delusive war-time markets. Any measurement of the displacement of war which fails to take into account this history of the analysis and especially of the adjustments of the post-war period would be partial and incomplete.

The delusive nature of mere war-time balance of trade is perhaps more clearly evident in these studies of the European neutrals than in any other part of the economic history of the War. Although there is here and there some residuum of profit, the whole transaction, measured in terms of a general balance sheet, furnishes a surprising verification of the general principle that underlay the phi-

losophy of Adam Smith, namely, that the prosperity and wealth of any one nation in the industrially developed world depends upon the prosperity and wealth of others which are its neighbors or its customers. Compared with the belligerent nations, the neutrals were indeed fortunate; and their comparatively richer estate has led some superficial observers to the conclusion that the misfortune of others was a source of profit to them. But it is obvious that this line of comparison is utterly misleading. The degree of their prosperity should be measured in terms of their own peace-time economic history and with its possibilities and its implications. In other words, the economic history of the period of the War must be studied in the neutral countries in the same way and by substantially the same methods as in the case of the belligerent nations. This has been done in the present volume.

For the thoughtful reader, therefore, this is much more than a chapter of the history of the northern nations of Europe. It is a demonstration of the narrowing field of neutrality when measured in terms of real national interests. The fact that the three countries which it covers have different economic interests makes the lesson all the more convincing; for Denmark is mainly agricultural, Norway relies chiefly upon shipping, and the war-time industry of Sweden was chiefly concerned in the exploitation of its iron and steel. Lying apart from these and having an economy of its own, Iceland presents a chapter of war-time history which suggests at once the far-reaching effects of the Continental struggle. In each case the story is told as simply and as directly as possible, and the reader is often hardly aware of the intricacy of the underlying pattern as he follows the compressed but open narrative of the following pages.

The original texts of the monographs published in Swedish, Norwegian, and Danish are considerably longer than the texts which follow. They form four volumes in the Scandinavian Series. It goes without saying that the processes of abridgment have considerably lessened the volume of available information to be found in the originals. As these works are listed in an appendix of this volume, however, readers wishing to go more deeply into Scandinavian developments during these checkered years may refer to them. This applies especially to the more voluminous primary sources, statistical tables and documents, which have had to be omitted for the most part from the present volume.

The task of reshaping the original monographs and of presenting a text for the American reader has been unusually difficult, and has only been rendered possible by the coöperation of the authors who have in some cases largely rewritten their original monographs so as to bring out those points which are of major interest to the English-speaking reader. Appreciation of their contribution, both in the original research and in its English adaptation, will not be lacking upon the part of thoughtful students of these fundamental problems. An especially difficult editorial problem confronted Professor Eli F. Heckscher, the editor of the Swedish monographs, through whose effective and scholarly coöperation the Swedish volume was made possible. It is doubtful if there would have been any Scandinavian Series at all, had it not been for the initiative and the continued interest of Professor Harald Westergaard of Copenhagen, who has been a member of the research organization of the Carnegie Endowment from its beginning in 1911, and whose loyal service to the cause of international understanding throughout these years has been most effective by reason of his undeviating insistence upon the application of the scientific method and the ultimate vindication of truth in its own name.

J. T. S.

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I

SWEDEN IN THE WORLD WAR

PART I

GENERAL SURVEY

BY ELI F. HECKSCHER

PART II

TRADE AND SHIPPING POLICY IN THE WAR

BY KURT BERGENDAL

PART III

MONETARY HISTORY

BY ELI F. HECKSCHER

SWEDEN IN THE WORLD WAR

PART I. GENERAL SURVEY

CHAPTER I

INTRODUCTION

The abridgment necessary in order to bring within the covers of a single volume the economic and social history of all the Scandinavian countries during and after the World War has been executed a little differently for each of them, partly owing to differences in the original treatment. The two volumes on Sweden, in their original form, were the work of eight different authors; and to present all these contributions within the present volume would have changed them into a series of rather unappetizing skeletons, which would have been especially unwelcome on account of almost identical subjects having been treated, and treated with greater completeness, in the volumes of the Economic and Social History of the World War devoted to other countries. Another line has, therefore, here been followed. Three parts out of six have been preserved, more or less completely, because they are believed to contribute to problems of more than local or national interest: a general survey; a study of the commercial policy of Sweden, which was unlike that of other neutral countries in important respects; and an investigation of Swedish monetary history, intended as a contribution to an international discussion, and a criticism of theories put forward on the basis of assumed Swedish experiences. The remaining three—on food supply, industrial policy, and social policy—have had, reluctantly, to be left out of the present translation series altogether, important as they are with regard to the inner working of Swedish economic and social life. A few significant facts from them have, however, been embodied in the present part.[1]

[1] Reference may be made to an earlier book, by the present writer, *Världskrigets ekonomi, en studie över nutidens näringsliv under krigets inverkan* (Economics of the World War, a Study of Present-Day Economics under the Influence of War), 1915; the points of view contained in it have been followed up particularly in the fourth part of the Report of the Royal Commission on Economic Preparedness in Time of War (1918). The later

Commercial Policy.

The background of the economic and social history of Sweden in war-time is furnished by her policy of neutrality, which is treated in the next part of the present work. The first war-time government of Sweden, that of Governor Hammarskjöld, made adherence to pre-war international law the loadstar of its actions; and as international law in war almost invariably leads to the sharpest conflicts with that party which is the ruler of the seas, the consequence was, first, a curtailment of our imports, which are principally carried over the North Sea; but, beyond this, it resulted in a specific rise in our price level, for reasons given in Part III. The Government of Professor Edén, which came into power in the autumn of 1917, showed a more accommodating attitude to the claims of the Allied and Associated Powers with regard to commercial and navigation policy. This was, in part, the result of a change in principle in view of the realities of war; but it was also connected with the entrance of the United States into the War (through which one of the corner stones of the earlier policy disappeared), and with the increasing scarcity of goods, particularly of food within the country. This change in attitude took so long, however, that the results did not appear until the second half of 1918, shortly before the armistice, so that the consequences of the earlier policy lasted, broadly speaking, throughout the actual war period.

An equitable judgment on this fundamental problem of our war-time history is, almost certainly, still impossible; for at least one premise still belongs to the future. A comparison with our neighboring countries, Denmark and Norway, also dealt with in this volume, now makes it decidedly probable, it is true, that a less strictly legal attitude would have resulted in more ample access to goods, and, consequently, an incomparably greater ease of life than that which prevailed. It must be added, however, that the sufferings of the Swedish people have hardly shown any abiding effects.[2]

If a great object is held to justify sacrifices, the deciding question

developments of the War, and after-war occurrences, do not appear to have made essential changes in the conclusions of the book, with one very important exception, i.e., the ability of belligerents to paralyze the world's trade. In particular, price policy and rationing (Chap. VIII) are taken up in the present Survey.

[2] See p. 8.

will then be, whether a strict adherence to a policy of neutrality really was such a great object; but it is exactly this question which cannot be answered at the present moment. For the creation of the League of Nations has undeniably greatly diminished the importance and extent of a full neutrality; and the deciding factor will consequently be how far the new international order can be expected to be a substitute for the old neutrality, or if principles of neutrality will have to be restored in the near future. Most people, though far from all, will probably regard the former alternative as the more probable one; and if this opinion represents the truth, Swedish sacrifices for neutrality have not so far borne much fruit. Even from the most unfavorable standpoint there remains, however, one gain from our policy of neutrality; for through it Sweden has gained that reputation in the world which almost invariably, in the long run, is won by a courageous adherence to principles in the teeth of hard pressure and great privations. In this respect our neutrality policy appears to have combined with other features of Swedish policy during and after the War, as widely apart as Sweden's care for the victims of the War, on the one hand, and on the other her successful return to the Gold Standard before any other European country, especially before that earlier pioneer of sound monetary policy, Britain.

Embargoes.

All this, however, is only the background to the economic and social side of our history during this period, and is here touched upon principally from that point of view. For our policy of neutrality gave Sweden a place by herself among neutral countries in the economic field, with the possible exception of Switzerland. Our country became subject to an embargo upon exports which brought our economic position into a likeness to that country which was under blockade more completely than any other, Germany, though it must, at the same time, be added that anything comparable to German conditions never occurred, and our sufferings disappeared long before those of Germany. The accompanying diagram (Diagram I) tells the most important part of the tale.[3]

It appears to have been almost unexampled in the history of war

[3] From Part II of the Swedish edition (by Mr. C. Mannerfelt).

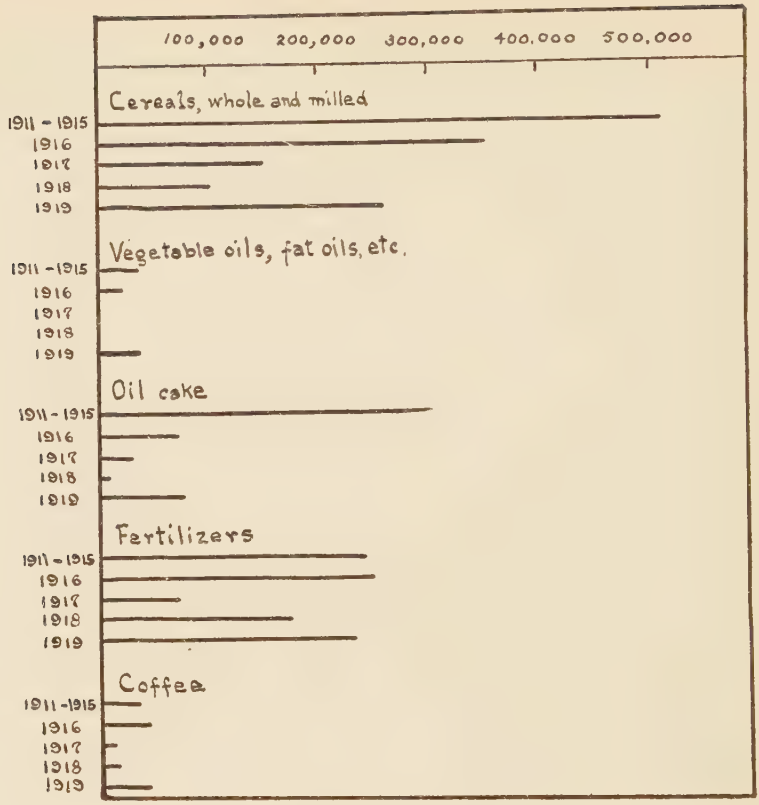


Diagram I

Imports of foodstuffs before and during the War (in tons).

that an altogether neutral country should have been subjected to so drastic an embargo; and this it is which gives the fate of Sweden during that time a place by itself. This was not *altogether* a necessary consequence of Sweden's policy of neutrality, or even of the pressure brought to bear by the belligerents. A large part of the responsibility falls upon Sweden's own rulers, because they allowed exports to go on to the extent they did, and by that increased the scarcity of goods and the rise in prices more than would otherwise have been necessary. That this was not the result of a pro-German bias, as was often believed both within and outside the country, will appear from the figures given below (p. 25), but does not change the result from a Swedish point of view. The total value of the Swed-

ish assistance put—without compensation—at the disposal of foreign countries (the excess of exports and freights), has been computed in Part III to be no less than kr. 2,250,000,000 ($600,000,000) for the years 1914-1918; to which will have to be added interest, and also an unknown amount for various other services.

It is impossible, it is true, to measure the total decrease of goods available within the country which resulted from these factors; the indications given in Part III for the years 1916-1918 are necessarily a very rough approximation for the purposes of gauging monetary conditions, and will not be repeated here. It is of greater interest to give here the decrease in that field where it made itself incomparably most strongly felt, i.e., food supply (principally cereals), and compare the situation, at its worst, with the scarcity of cereals in England toward the end of the Napoleonic wars, which was at that time considered very serious. The decrease of supplies then, has, in an earlier book by the present writer, been computed at from 12 to 16 per cent of the normal consumption during the year of greatest scarcity, 1810.[4]

Against this, Sweden in the harvest year of 1917-1918, when the country was most hard hit, showed a decrease in wheat and rye available within the country of from 183 kilograms per head, as an average for the four last pre-war years—1910-1911 to 1913-1914—to 83.4 kilograms, that is, a decrease of no less than 55½ per cent, or considerably more than half. Even if it be assumed that the harvest returns for the later years of the War were intentionally more largely underestimated than was the case before the War, which appears probable, an enormous decrease still remains.[5]

There consequently arose a scarcity of food which was greater than most people would beforehand have believed it to be possible to endure; and, for the first time in two generations, a great part of the population of Sweden was made to feel what it meant not to be able to procure sufficient food; from this it also followed that

[4] *The Continental System, an Economic Interpretation* (Publications of the Carnegie Endowment, Oxford, 1922, p. 337).

[5] Even if *half* the stated decrease in the harvest were to be ascribed to too low statements—an improbable assumption—a decrease by 41 per cent would remain. It must be added, however, that the new importance of the potato since the Napoleonic wars has considerably changed the situation in the last hundred years.

men's thoughts, during the later years of the War, revolved about food in a way they had not done for years. There is no denying that pre-war conditions were thereby brought out in a new and more true light; for it now became clear that the past, in spite of all its undeniable social blots, had at least provided an adequate living, in a material sense, for almost all Swedish citizens—men, women, and children.

It was certainly not more than half the population which experienced want even during the most severe years of the War, it is true. For the agricultural population was mainly independent of the decrease in food supplies. Those who were independent of imported supplies were computed at 36 per cent of the total. To add to this, a great part of the remaining population, outside the towns (11 per cent of the total population), were considered to be in the same situation, making 47 per cent in all. Probably not a few more were also able to profit by agricultural production at the cost of the urban population. It was the last-named group, the inhabitants of towns and urban districts, which had to bear the brunt of the battle; and, in spite of what was done to help the weaker classes, there can be no doubt that want was bitterly felt toward the end of the War. It is quite another question whether it worked any real harm. According to a widespread opinion, the ravages of the so-called Spanish influenza during 1918 and the beginning of 1919, which raised the death rate by more than one-third,—from 13.39 per one thousand in 1917, to 18.01 in 1918,—were connected with a constitutional weakness due to insufficient nourishment. This is possible, but does not appear very probable, having regard to the fact that the rural population was almost as hard hit as the urban. For the former the death rate increased in 1917-1918 from 13.82 to 18.43, and in the towns from 12.30 to 16.96.

To the scarcity of food there was added scarcity in most other fields, all of it perhaps to a greater extent than anywhere else outside the boundaries of the Central Powers and Russia.

Monetary Policy.

The burden upon Swedish economic life and the Swedish Government was made enormously more difficult by its monetary policy.

As was pointed out by Professor David Davidson time and again, the natural course to follow would have been to allow the average

prices of goods to rise in proportion to the decrease in supplies, i.e., to let the total amount of commodities retain about the same aggregate value in money, irrespective of the decrease in amount. This would have meant about the same value in money income for the country as a whole, in spite of a fall in real income, equivalent to the decreased amount of goods. Even upon the most favorable supposition this would at least have meant that the amount of money in circulation would not have had to be increased, and, almost certainly, it would have meant even a considerable decrease in the volume of money, as the velocity of circulation of money had grown very considerably (and probably far more than the velocity of circulation of goods). A diminished amount of money had, in other words, the same efficiency as an earlier and greater amount. Through a monetary policy which would have followed such lines, the diminished supplies of goods would everywhere have created that rise in prices which we always, normally, expect to be the consequence of a diminished supply of any particular commodity; individuals would, on an average, have had an unchanged purchasing power, as expressed in money, though less would have been had for it in goods; debtors and creditors would, broadly, have been influenced alike by the fall in the real income of the people, or in the supply of goods. To demand unchanged prices of goods during wartime destruction was, consequently, untenable; but it was none the less infinitely more justified than its opposite, which resulted from the policy of the Central Bank, i.e., the Riksbank, and consisted in an *increase* in the volume of currency when the amount of goods *decreased*, and even an increase at a much greater rate than the decrease in what was to be bought for the money. The appalling developments which are fully treated in Part III were caused by this interplay.

Price Policy.

This being the situation, a correct price policy became one of the chief aims of Government and Parliament; but they centered not on the causes of the price situation, but exclusively on the results of these causes, i.e., the price situation itself. "Dearth" became the one word in both private and public complaints. Using its existence as its principal argument, the then Liberal and Social Democratic Opposition stormed not only against the Hammarskjöld Govern-

ment, but also against the commercial and foreign policy which was its program. If this program was to be saved, the sting had to be taken out of that rise in prices which was the common complaint of the working population and of all classes with fixed money incomes.

The most remarkable thing, and a thing already touched upon, was, that two of the principal causes were left altogether aside, or, at least, were handled far too gingerly by the Government—the deluge of currency and the swelling of exports. The third principal factor, the decrease of imports, the authorities honestly tried to counteract, it is true, so far as was consonant with their general policy of neutrality; but this exception was so formidable that the year 1917 was characterized, at times, by an almost complete embargo; and only the change in general policy during the last year of the War created a new situation. Broadly speaking, very little was consequently done to prevent *the rise in general prices*.[6]

The innumerable measures in the field of price regulation, consequently, were directed against the increase of *particular* prices, at the risk of a greater or smaller number of other prices being raised thereby. There was nothing inherently irrational in that; for a lowering of prices of necessaries could clearly make matters much easier for the masses, quite irrespective of the fact that prices rose at the same time for commodities which could be dispensed with, and which were in demand on the part of classes or individuals able to satisfy a greater part of their wants. If it were supposed that both

[6] In this place it is impossible to discuss the theoretically debatable question, whether a lowering of prices for *particular* commodities will automatically create a corresponding rise in the prices of other commodities, and consequently leave the level of general prices unchanged; or whether, on the contrary, the prices of other commodities will, on an average, remain unchanged in the case of such a partial decrease of prices, and consequently a sinking of the general price level will result from such measures. If the amount and velocity of circulation of the currency remained unchanged, the first-named result would follow; for the money left over through the fall in prices on the first point would then turn to other commodities and create a rise in their prices. But it is possible, and even probable, that the velocity of circulation, or efficiency, of money would, in fact, decrease; and, if so, the result would be in the opposite direction, so that a fall in, say, the price of cereals which was secured through, e.g., rationing, would lower the general price level, too. But nothing points in the direction of such a result having been of any importance worth considering during the War.

the amount of different sorts of commodities and the volume of currency were broadly given—which, as a matter of fact, largely constituted the premises of general government policy—the task would consist in such a rearrangement of the relative prices of commodities as would be best able to provide for those hardest hit.

As it was one of the premises of the problem that supply should broadly be regarded as fixed, there only remained one way of influencing prices, i.e., to limit demand; for, given the amount of supply and demand, the price will necessarily follow.

No more need be said to show the imbecility of pure maximum prices, naked decrees to the effect that prices above a certain amount should be prohibited in an otherwise free market. For in so far as an equilibrium of supply and demand came into existence of its own accord at such maximum prices, the decree was unnecessary; and, in so far as an equilibrium did *not* result, the decree was impossible to enforce. The fundamental mistake of maximum prices was, consequently, by no means, first, what was often assumed both at that time and later, i.e., to injure producers and sellers; this *might* be the result, if prices were lowered beyond a certain level, but need by no means be so. Maximum prices were often impossible even in cases where they gave producers all that was needed to make them maintain production; for even upon this supposition those prices might be incompatible with the action of price developments. On the other hand, it is quite as impossible to account for pure maximum prices on the plea of the interests of economically weak groups; for even if such interests were made the sole loadstar, this was no reason for a measure which would not attain its object. And this was precisely the result of pure maximum prices.

This principally refers to ordinances calling for maximum prices in an otherwise altogether free market. In this case no right was bestowed on anyone to purchase the commodity which was subject to the maximum price; it was merely the duty of the seller not to exceed that price. If it was put below equilibrium point, the consequence was a demand which could not be met by the existing supply, and the situation became instantly impossible. The natural result, and probably the most usual, was for the purchaser to break the law. As he willingly paid more—often much more—than the maximum price, as a rule the chances of the seller continuing to be unswervingly law-abiding at the cost of his own interest could not, to

put it mildly, be great. But it was clearly possible and happened in many cases. Maximum prices, however, did not serve their purpose better in that case. For the fact remained that the demand was too great to be met by the supply, and the demand must, consequently, in that case unfailingly be limited in another way than through an increase in price. It might so happen that the law-abiding seller favored his friends and acquaintances, or his old customers, so that others had to go away empty-handed. It might also happen that the seller became a purchaser himself, so to speak, i.e., did not offer the commodity for sale, because it had a greater value to himself as a consumer than the maximum price gave him in the market. This—that "the goods disappeared from the market" in consequence of a maximum price—was the most common alternative to "clandestine trade," i.e., the setting aside of the price decree. And a combination of both these methods was also common: the commodity was first kept back and afterward put up for sale, in an underhand way, at a higher figure than the maximum price. Only one thing could never happen, because it was an impossibility, i.e., that the whole demand for the goods would be met, in spite of a price so low that it made effective a demand greater than the supply.

There remained, however, a possibility of obviating the weakness in pure maximum prices which consisted in the fact that no purchaser had a *right* to acquire the object at the decreed price, and this came to light in the case of urban dwellings and the Rent Regulation legislation, studied in the Swedish edition of the present work by Mr. K. G. Tham. Through this legislation a right was conferred upon distinct individuals to occupy dwellings at legally enforced rents; landlords had no more right than anybody else to take over their houses in the place of these tenants. Maximum rents became through this quite effective, in so far as the tenants could by no means be deprived of the benefit of them; and they became the unassailable privilege of such people as happened to be renting dwellings on May 15, 1917. This privilege meant that they had cheaper and, consequently, more extensive dwellings than would otherwise have been the case; but it could also be used by them for pecuniary profit, through their becoming only tenants-in-chief, and subletting or giving up their apartments for some form of extra payment from other and non-privileged persons.

But in whatever direction matters might otherwise tend, the fun-

damental weakness of maximum prices would remain even in this case, because the price was too low to satisfy the whole demand which existed at the prevailing supply and price. In spite of the fact that the supply of dwellings, as compared to the number of inhabitants, e.g., in Stockholm, had not only not diminished but had even increased, there was, consequently, a permanent deficit of dwellings, which was nothing else than an expression of the fact that complete demand could not be met at the stipulated maximum rents. Even in the most favorable case, rents for the non-privileged population would have been as high as in the case of a total absence of rent regulation. But such a favorable result could hardly be expected under any conditions; for the privileged tenants, as a consequence of just those low rents, occupied a greater part of the total number of dwellings than they would otherwise have done; and as, consequently, less remained for the non-privileged, their rents must actually have risen on account of rent regulation.

All this became the consequence of a regulation of prices without an attempt to limit demand. The disadvantages of this as a whole, in connection with the difficulty of convincing public opinion of the damage caused by it and, consequently, of avoiding it, caused an amendment to the law, through which the stipulations with regard to maximum prices were separated from those of government *requisitioning* (or sequestration) of goods. The last-named measure gave rise to what was from every point of view, in practice as well as in principle, the most important policy in the whole field of regulation of goods and prices during the World War, that of rationing. The principal credit here belongs to Germany and not to Sweden, however, for the former country had to resort to such serious inroads upon economic life much before Sweden.

Rationing.

Rationing brought about the necessary limitation of demand and the consequent power over prices, for it constituted a license to buy stipulated amounts. The measure of demand was, by this, regulated beforehand by law, and was no longer a result of price; for price there had been substituted another factor that restricted demand. It was in full consequence of this that it became possible, in some cases, to give up all direct price regulation in case of rationing; for as the goods could not be made subject to a greater demand than

that which existed beforehand, a lower—probably in normal cases a much lower—price than through free demand resulted, i.e., prices were automatically lowered. On the other hand, it would also have been possible—the supply element always omitted—to furnish the goods altogether gratis, without increasing demand through that, above what the licenses to buy (or "cards") allowed. From reasons which are easily explained, this line was seldom or never followed, however; nor were, in normal cases, prices allowed to regulate themselves; they became subject to government regulation. But such prices were not in any sense maximum prices; they were fixed-sale prices for goods controlled by the State. In so far as prices were then kept higher than what corresponded to the lawful demand of the weakest purchasers, the result was either that some part of the stock was left unsold, or that it was (illegally) taken over by others through a transfer of the license (or "card-coupon"). The first-named alternative was, in itself, as a rule rather welcome, short as stocks always were during this critical time; the second alternative, on the other hand, counteracted the object of the system, and ought, therefore, to have led to the consequence that the price was not put much higher than what the masses were able and willing to pay for those necessaries which were principally in question.

From the point of view of development of social responsibility, this remarkable system also constituted an important novelty. That the masses among highly civilized peoples in modern times are able to have their demand for necessaries completely met at moderate prices under normal conditions, is connected with the fact that the demand of each individual for food (in a physiological sense) is strictly limited or, in the terms of theoretical economics, has an "elasticity below unity"; the rich, for this reason, do not ask for food by even comparably the same percentage of their income as the poor. But when the supply of food becomes short, there exists, for this particular reason, a possibility that the rich can go on satisfying their total demands in nutritive value, by allowing it to absorb a greater part of their income; in normal times they have had their demands met at a price far below what they would have been willing to pay rather than go without; and, consequently, they ask for as much (or nearly as much) nutritive value as before, in spite of the great rise in the price to be paid for it. Under the conditions of a considerably diminished supply of food, a rise in price out of all

proportion to the decrease in supply will, therefore, in a free market, be necessary in order to limit demand to the same amount as supply; and a violent rise in price will then be necessary to create an equilibrium. The injury of this rise in food prices will almost completely fall upon people of small incomes, who may by it be brought to or below starvation point.

It is also true that, in earlier times, attempts were made to protect the poor from privation in times of scarcity in different ways, such as public feeding or the distribution of food; but rationing meant a far more radical turning away from the principle of an unequal distribution of income, and a much more marked recognition of the equal worth of all men. For it meant that differences of income were altogether deprived of influence in the case of the most important foodstuffs; the richest individual was not allowed to satisfy his want of bread to a greater extent than the poorest. A *communistic* régime, in the proper and original sense of the word, was so far brought to life; communism, in this sense, appears to have been altogether of greater importance during war-time than socialism, the latter word being taken in the sense of the State as sole owner of business in an otherwise unchanged community regulated by prices and free exchange. In other words, it was this sovereignty of unhampered prices which had first to be modified. The extent of the results of the rationing, as here sketched out, was greatly limited, it is true, by the fact that practically only vegetables could successfully be rationed; but this does not diminish the interest of the whole measure as a matter of principle; and though it *does* diminish its practical importance, it by no means nullifies it.

The object of rationing, consequently, was to abolish the influence of an unequal distribution of income, for the most necessary commodities; and it attained that goal to a great extent. But its results could not be limited to this, and when its by-products are considered, its weakness will also come to light, as compared with a system of free prices—exactly the same sort of weakness which must almost always attach to a communistic community as compared with one of free exchange. For free prices do not only give the rich a right to purchase more than the poor; it also allows every individual, poor and rich alike, so to distribute his total income that the total, subjective fulfilment of his wants reaches its maximum. Of people having the same income, one will sacrifice more upon dress, another

upon food, and a third upon his pleasures; and of those who sacrifice the same amount upon their food, one will at the same price prefer vegetable to animal food and the other the reverse; one of them certain vegetables and another others. This it was, precisely, that could *not* be secured by rationing, and which constituted the greatest weakness in the principle of that system. Everyone had as much bread or flour, as much sugar, etc., as his neighbor, irrespective of the fact that one of them would have been willing to give up part of the first commodity in order to have more of the second, and vice versa.

An improvement of the system of rationing in this respect would not have been impossible, but it was never tried except in the way of "clandestine trade," and this weakness constituted the most legitimate reason for just that unlawful traffic. It would, as a matter of fact, have been possible to allow an exchange of some sorts of "coupons" for other sorts, not on the basis of the nutritive value of different foods—for in that case the demand for the most expensive foodstuffs would have become too great—but according to their relative scarcity. This would have meant a sort of counterpart to a free community, though put upon an otherwise communistic basis. But demands of this sort quite naturally were too much for an organization which was already strained to bursting; and, it is hardly probable, that any communistic community would, even under favorable external conditions, be able to even imitate a system of free prices in its—from many points of view—wonderful applicability.

What has now been said has altogether left aside the question of supplies, i.e., it has regarded supplies as being of a given amplitude. As a matter of fact the situation was not as simple as that, however, and consequently the influence of price regulation upon supplies was also of great importance. In public discussion it was principally this phase of it which attracted attention and gave rise to criticism. It need not, however, be treated as fully as demand, for it goes without saying that every lowering of prices must have been working to withhold supplies, in so far as it was possible to influence them at all.

Even without a change in supply, there would be a decrease in the amount of goods put up for sale, when the price was lowered beyond a point where the owner would derive greater benefit in his own eyes from using the goods himself; and, as has already been mentioned, this was a common occurrence. But, besides this, it is clear that not

even supply itself was a given entity, but might, on the contrary, be influenced from many points, both with regard to the possibility of attracting goods from the outside during the earlier years of relatively unhampered trade, and even more with regard to home pro-

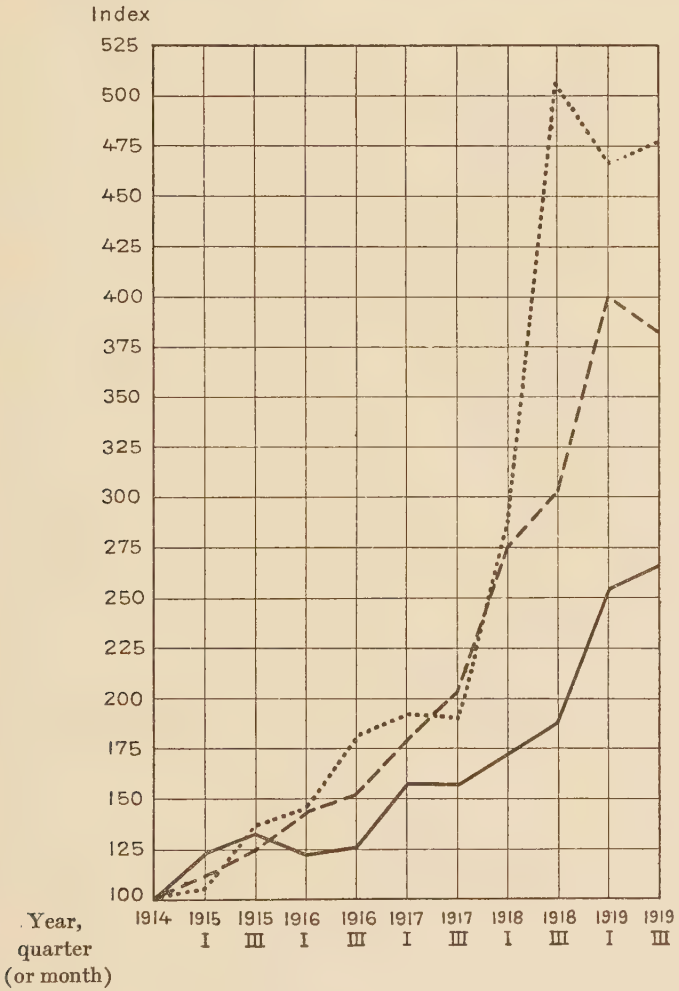


Diagram II

Prices of certain foodstuffs, 1914-1919.

duction throughout the War. The accompanying diagrams, II and III,[7] when taken together, will show how the policy of rationing—which meant the keeping down of the prices of vegetables, because

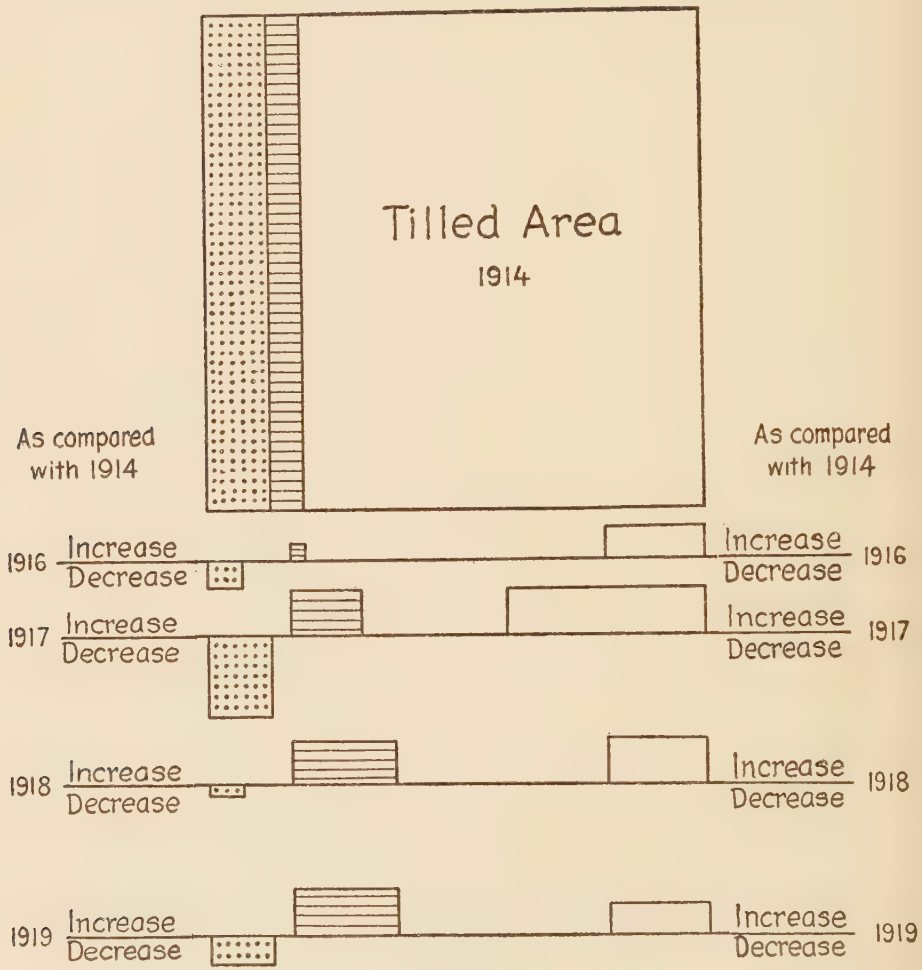


Diagram III

Development of tilled area under the influence of maximum prices, 1916-1919.

Tilled area yielding fall wheat and rye

Tilled area yielding spring wheat and rye, peas, beans, potatoes, and sugar beets

Tilled area producing meats and dairy produce

[7] From Part II of the Swedish edition.

this was both easier and, from the point of view of the masses, more necessary than the same treatment of animal food—led to a change in agricultural production in the opposite direction, increasing the food of animals at the cost of that of human beings. From this extremely unwelcome dilemma there was probably no outcome, except either to allow the prices of vegetables to soar, or for the State to pay higher prices for them, particularly cereals, than the prices which were afterward required from consumers, i.e., to pay a subsidy from the Treasury for the consumption of the most indispensable foodstuffs. Within moderate limits the latter expedient would have been more defensible under a system of rationing than otherwise, because it could not then, as in other situations, have caused a greater consumption of the goods than had been intended from the beginning. In this case the system would, however, have had to be limited, as far as possible, to those cereal crops which would not have been grown without this sort of encouragement; in other words, the price for taking over foodstuffs by the State would have had, at least to some extent, to be differentiated with a reference to the differences in the cost of production for different soils. This policy did also come into effect, to some extent.

This discussion of price policy refers, first of all, to the field of food supply, treated in the Swedish edition by Mr. C. Mannerfelt; but it had many parallels in other fields, particularly the industrial. Many intermediate systems between those hard and fast systems which have been sketched in the last few pages were also given a trial, and were both of practical importance and of theoretical interest, though space does not admit of their being taken up here.

The Character of War-time Business.

There is no need to emphasize the fact that the claims of war, as well as those commercial activities which were either new or had been carried on by the belligerents before, must have exerted enormous drawing power upon Swedish business as well as upon that of other neutral countries. A more restrictive export policy would, undoubtedly, have weakened that attraction; but to have done away with it altogether would hardly have been within human power. Especially in the earlier years of the War was the strongest stimulus felt by the shipping industry and by commerce; and it was, in so

far, outside of the ken of export restrictions. It is thus characteristic that that part of the increases in the capital of limited liability companies which during 1915 was set down to companies having commercial purposes proper was 43 per cent, as against 30.2 for 1913, and 24.7 for 1914; and later it dropped back to the figures for 1913.

This meant that business people, as was only to be expected, tried their utmost to profit by a state of trade which not only appeared to be gainful beyond the dreams of avarice, but which also looked even more overwhelming against the background of the fears, during the first months of war, of the paralyzing of business, and which might, lastly, be expected to come to an end at any moment. As the most incredible side of this frenzy, posterity will probably regard the belief in the possibility that a country with the geographical situation and commercial traditions of Sweden and the character of her people, might become a center of the world's trade. Even if exaggerations were never carried to quite the same height or led to the same ruinous consequences as in Denmark, it was bad enough that one great company (for the purposes of international trade) after another came to birth, only to lose their capital in a short time, and disappear so completely that even their memory appears, in many quarters, to have been blotted out.

In all the different fields of economic life, monetary policy constituted a principal reason for this. Even irrespective of war trade conditions, the wild disturbances of the monetary system would, undoubtedly, have caused a great deal, if not the greater part, of that speculation which now arose, as is fully discussed in Part III. As the mistaken monetary policy, theoretically speaking, might be described as the maintenance of too low a rate of interest, this meant that the highest premium was put upon those activities which made the greatest use of borrowed capital; and these were, first, to be found in the field of industry. As compared with an increase of population of about 2 per cent, the number of industrial workers rose by 10 per cent, between 1914 and 1917; and in the metal and engineering trades the rise was no less than 28 per cent.

The growth of industry was also helped by a sharp lowering of the real—as distinct from the money—wages of industrial workers through the whole period of the War, as Diagram IV will show.

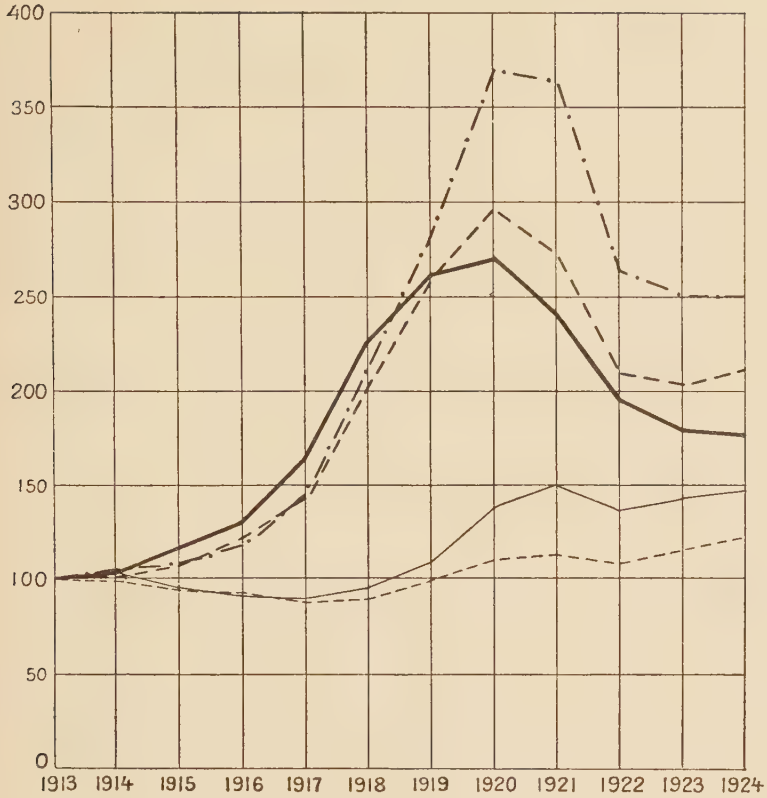


Diagram IV

Money wages and real wages, 1913-1924.

In the part devoted to industry in the Swedish edition of the present work, its author, Mr. O. Edström, has pointed out the possibility that the low prices of vegetables, combined with particular measures for diminishing the cost of living to the working classes, afforded one reason for keeping down monetary wages, and consequently, in actual life, though quite contrary to the object of this policy, led to a premium on industrial production at the cost of agriculture, i.e., it fostered quite the opposite development to that which was required by the situation. There is a great deal to be said for this explanation, in so far as labor unions, to all appearances, made it their

principal object to maintain the pre-war situation and fight high prices instead of profiting by them; and, if it may be assumed that the competition of employers for labor was not strong enough to allow workingmen passively to profit by the situation, this would be a correct surmise. In justice it must be added, however, that as even that rise in the cost of living which did naturally take place led to a fall in real wages, the fall might have become still greater if the cost of living had been allowed to increase even more. Upon that supposition there certainly was a great deal to be said for the policy which was actually pursued. But this does not diminish its influence upon industrial conditions. In three different ways—through its monetary policy, through the relative weakness of export restrictions, and through its food policy—the measures of the State would have assisted in, or failed to prevent, the excesses in industrial development and its one-sided application to the situation of the moment.

The profits of industrial and other business concerns had not, however, their sources exclusively in the character of war-time trade and the fall of real wages, but consisted probably, to at least as great a part, in confiscations of the claims of bondholders and other creditors, because these debts, being expressed in money, were incessantly falling *pari passu* with the value of money—those of pre-war times, consequently, falling in the end to, or below, one-third of their original value. As seen from the point of the lowest value of money, 1918-1920, the total loss suffered by such holders of bonds, etc., payable in Swedish money, has been calculated to be more than kr. 18,000,000,000 or $4,800,000,000 in the current value of money. As, however, about two-thirds of this has, by now, been made good again, it will be better to take the annual yield into account; for each year such as 1918-1920, on the basis of a capitalization at 5 per cent, this would have amounted to kr. 900,000,000 ($240,000,000) in the current value of money, or about kr. 270,000,000 ($72,000,000) in pre-war value, and at least kr. 400,000,000 ($105,000,000) in present gold-standard monetary value.[8]

In these great, and, as may safely be affirmed, partly indefensible gains to shareholders and controllers of business concerns, the State,

[8] It must be emphasized, however, that these losses fell upon all to whom debts were due and payable in Swedish money, and that among these were a considerable number of foreigners; cf. below p. 26.

however, made itself an unblushing sharer. For besides a sharp rise in the income and property tax through changed legislation, the excess profits tax produced in 1920 and the years preceding, kr. 1,000,000,000 ($270,000,000). The character of the excess profits tax became irrational, it is true, principally because no difference was admitted between fictitious increases (i.e., those which meant changes only in nominal monetary amount) and real increases, in incomes and profits.

It would, undoubtedly, be of interest to be able to estimate the total profits of business during the War, on lines which are more reliable than those of the excess profits tax assessments. Computations expressing profits in percentages of assets have, however, been made impossible by the changes in the value of money; for these changes almost invariably led to assets being expressed in the most haphazard monetary values, so that figures for assets, depreciation, and profits became little more than farcical.

It would perhaps be of even greater interest, from a theoretical as well as from a practical point of view, to try to learn how far the total amount of savings of the country has been influenced by the war-time upheaval. The changes in the value of money, undoubtedly in themselves, diminished savings among such people as had saved in normal times in the form of bank deposits, debentures, and insurance; for the position of these groups incessantly grew worse because the greater part of the value of their assets did so. But, on the other hand, all this confiscated wealth and much more was transferred into the hands of owners and controllers of business concerns, and might be expected to be invested by them in new plants and means of production of different sorts. But again, it is, clearly, also possible that these groups, the "profiteers," spent a much greater part of their incomes than investors had done in pre-war times upon high living and in all sorts of extravagance, so that the total amount of savings might have become diminished instead of being increased.

Unfortunately, that exact investigation of the question which would, consequently, be greatly needed, must be considered as altogether out of the question. Even under a stable monetary system it is one of the difficult tasks in economic statistics to learn the amount of savings; and, when the value of money is subject to great changes, to do so is made impossible, because one cannot decide to

how great an extent a change in figures represents only a new monetary expression of an unchanged reality, and how much represents real change. It is, therefore, unfortunately necessary to fall back upon an unproved general impression—which in this case appears to be rather general, however—that war led to a rather substantial increase in the productive capacity of the country as a whole.

Besides, less than might have been expected would be gained even from a correct computation of new creations of capital, in so far as the meaning of the whole phenomenon will, in the long run, be dependent upon the use to which savings are applied. A great deal of the saving which actually took place became altogether useless from the very beginning, because the new means of production were not completed before the moment when trade conditions were reversed; instances are not wanting of plants valued at tens of millions of kronor, particularly in the iron and steel industry, which could never be put to use. This misplacement of capital, which is characteristic of all periods of speculation, probably never occurred in Sweden to such an extent as during the World War. In more fortunate cases the new establishments had a use during the later part of the War; but they became more or less valueless afterward. And, in still other cases, perhaps the most numerous of all, the new savings were invested in foreign countries and, undoubtedly, were put to use by *them;* but, from a Swedish point of view, their value was, in many cases, no greater than as if they had been thrown into the sea.

Gains and Losses Due to the Belligerents.

This leads to the question of the gains and losses experienced by the country due to the belligerents. Among the warring peoples it was considered as axiomatic that neutrals reaped heavy profits at their cost, and, in some respects, there were very good reasons for such an opinion. Commodities and other sources of income like freights, transit trade, commissions, etc., of neutral countries, and among them Sweden, undoubtedly rose sharply, sometimes even violently, in value as compared with pre-war times, and this not only in money, i.e., nominally, but also as compared with the exports which had to be given in exchange on the part of the belligerents; this is partly illustrated in Part III of the present work. But the reason was, first, that the belligerents at the time were unable to give equivalents for what they received.

In consequence, and to simply an enormous extent, the exports of neutral countries, and of Sweden, perhaps, particularly, went altogether unpaid for, for the time being, i.e., they constituted those credits and capital exports to the belligerents which formed one of the most important aspects of what followed; and they are also fully treated in connection with monetary affairs. To what an extent the exchange of services became, in the end, favorable to neutrals must, then, have been dependent upon those deliveries which were at last made on the part of belligerents or former belligerents; or, more correctly expressed, to what an extent such deliveries were ever made, and if, on what conditions. Broadly speaking, most things, though not all, went to reduce or efface the value of the assets of neutrals in belligerent countries.

To begin with, the almost incessant fall in the international value of money caused a consequent reduction in all debts expressed in money. The only chances of saving a country, e.g., Sweden, from the full consequences of this would have been these:

The first would have been to exchange debts in money for assets in kind in belligerent countries; this would, in itself, have been quite effective, in so far as such an ownership was respected. For natural reasons it met, as a rule, with great difficulties to creditors, however, and did, as far as is known, play no important part anywhere outside of Russia—that one country where the Bolshevist Revolution in November, 1917, ended by making it mainly illusory.

Another expedient would have been to wait for the rise in the international value of money in 1920-1922—which would have given back to Swedish creditors more or less of their losses due to the earlier rise in prices or, in extreme cases, might even have resulted in new gains. But nobody was able to foresee this new development, and, in the case of Sweden, probably about half her new foreign assets were taken back during the years 1919 and 1920, just before the big slump in prices; so the final rise in the value of money was only in part of use to Sweden in that respect. The following figures will show this: Capital exports during the years of actual war, 1914 to 1918, have, in Part III, been computed at kr. 2,250,000,000 ($600,000,000), to which must be added unpaid interest of about kr. 350,000,000 ($100,000,000) or kr. 2,600,000,000 ($700,000,000) in all. Even this, probably, is a minimum figure, as no net surplus has been taken into account except from transactions re-

ferring to exchanges of goods and freights, so that some kr. 200,000,000 ought, perhaps, to be added, over and above the kr. 2,600,000,000. Compared with this, the two following years, 1919 and 1920, showed an excess of imports of 1,994,000,000 ($535,000,000). If to this is added interest payable to foreign countries, say, kr. 60,000,000 ($16,000,000), and, on the other hand, 69 per cent of income from gross freights or kr. 753,000,000 ($200,000,000) are deducted, net capital imports for something like kr. 1,300,000,000 ($350,000,000), or about half the capital exports of the years of war, is found to result. Something like this amount will, consequently, be found to have been paid back to Sweden in money of a low value and, in all probability, at a loss.

The third possibility would, lastly, have consisted in a redemption of the loans and other securities issued by Sweden and in the hands of belligerents, principally Swedish state bonds. This expedient was the only one actually used, and its importance for saving war-time gains was very great indeed. The total stated amount of imported securities consisted, for the *whole* period 1914-1925, of about kr. 814,000,000 ($218,000,000) at purchase prices, of which nearly kr. 700,000,000 ($190,000,000) were in Swedish securities; even these considerable amounts ought to be increased by an unknown sum for non-stated imports, through other channels than bankers or brokers. In so far as these transactions referred to Swedish bonds, they constituted an exchange between earlier Swedish debts to foreign countries and new foreign debts to Sweden, and consequently meant full payments of the last-named debts, i.e., they enabled the country to retain, in so far, the gains from the high valuation of its export goods and shipping industry. As a matter of fact the repurchase of Swedish bonds gave the country also another, though less honorable advantage, as Sweden as a debtor country was able to profit by the fall in the value of money and repay earlier debts with an amount which was equivalent only in name, and greatly diminished in real value. This advantage was particularly great in the case of those Swedish securities which were repurchased up to 1920, inclusive, at a stated total amount of kr. 487,000,000 ($131,000,000), because pre-war debts regained a great deal of their original value through the rise in the value of money after 1920. Through this third expedient Sweden, consequently, reaped a clear, and even a double gain at the cost of the belligerents. But it was

counterbalanced by the losses in the two first-named directions; and these losses were clearly not limited to a loss of abnormal gains but meant that Sweden's goods and services were either altogether valueless, or the sum paid for them was only a small fraction of what would have been their real value under peace conditions.

In this discussion no reference has been made to the fall in particular currencies. Sweden probably had small net assets, if any, in gold or dollars, for all through the War there was an excess of imports in the case of her trade with the United States. The most she could expect were assets in Swedish money, the purchasing power of which fell at least 50 per cent more than American money. But great parts of her credit exports, in the earlier years of war in particular, were made payable in Russian, German, French, or other foreign currencies and, consequently, followed them on their downward road. It is impossible to give figures showing the importance of this, it is true, because neither the amount of credits in foreign and Swedish currencies, respectively, is known; nor is it known at what time the former credits were repaid or made payable in Swedish currency. It may, however, give some little help to know the figures for Sweden's excess of exports, during the years 1914-1918, in the case of countries the currencies of which were greatly at a discount, and which were of importance in this respect. It must be emphasized that these figures are far too low, in so far as the enormous revenues from freights are included in import values but not in export values; as has already been said, the figures will, besides, clear away the altogether mistaken opinion that there was an excess of exports principally in the case of trade with the Central Powers.[9] They are here given in millions of kronor and dollars, respectively:

	Kronor in Millions	*Dollars in Millions*		*Kronor in Millions*	*Dollars in Millions*
Russia	303	81	Austria	125	34
France	205	55	Germany	97	26
Finland	146	39			

While the very considerable Swedish profits from exports and the carrying trade were, nominally, very much reduced by all these fac-

[9] As to Britain, the excess of exports amounted to kr. 601,000,000 ($161,000,000), almost double that of any other country; but this has nothing to do with Swedish losses through the fall in foreign currencies.

tors, the pure losses caused by commercial and actual war constituted great amounts besides. So far as is known, there is no estimate of what was lost to the country by the innumerable detentions and confiscations of Swedish goods, by the greatly lengthened trade routes, and—perhaps most of all—by the long sojourns of ships in the ports of belligerents, their enforced voyages on the behalf of the masters of the sea, etc. The sole known figures, based upon an inquiry by the Swedish Board of Trade, refer only to a small part of the whole, covering material and physical loss in ships, crews, and cargoes. Complete and partial losses of ships were found to amount to about kr. 230,000,000 ($61,000,000), which gave the probable purchase value of the ships at the time of loss, and perhaps 10 per cent more at prices prevailing in the spring of 1921; to this there was added about kr. 80,000,000 ($22,000,000) for losses of goods of different sorts,—that is, a grand total of from kr. 310,000,000 to kr. 330,000,000; an uncommonly doubtful grand total, it is true, on account of the enormous changes in the prices of tonnage. In all, too, about 800 lives were lost.

It will be seen from this that there is nothing known, for certain, with regard to Sweden's final gains and losses by the War, if this is equivalent to the question, whether the payments or exchanges which in the end came to Sweden from foreign countries, in payment for Swedish help and services during the War, summed up to a total of value greater or less than Sweden would have received from the same help and services before the War.

In many respects, it is true; the final result is beyond doubt the chief part—probably about two-thirds—of Sweden's debts to foreign countries was paid, and most foreign concerns in Sweden—never very numerous, however—were taken over by Swedish hands. Swedish assets in foreign countries also grew to be definitely larger. But this result had been reached by the most rigorous restriction of consumption, and it does not at all constitute an answer to the question asked above. Such an answer can only be given at random and will, therefore, not be attempted here.

It is a question of quite another character whether Sweden came out of the War and out of her after-war difficulties in a condition which had improved or deteriorated as compared with that of other countries. But that question had best be left till we have reached the final chapter of this survey.

CHAPTER II

THE AFTER-WAR PERIOD

What has now been said refers, broadly, to actual war-time trends. Passing now to the after-war period, considerably less needs to be said in this place, because by far the most important and interesting side of it was Sweden's monetary policy, which has had separate treatment. A summary of the results of the deflation period will, however, lead to a final view of the present situation.

However inevitable the policy actually pursued may have been, it had very serious consequences for Swedish economic life. According to statistics published by the Swedish Board of Trade, the results of which are given by Diagram V, the volume of industrial production had, during the years 1921 to 1923, fallen to 75, 87, and 96 per cent, respectively, of the amount for 1913; during the first of these three years the figure was actually a little below that of the most unfavorable year of the War, 1918.

Perhaps the most important part of this was the unique amount of unemployment. The accompanying Diagram VI shows at a glance how serious the situation became during the years 1921 and 1922, the figures rising to more than seven times their original level. The policy pursued has been recorded in some detail in the Swedish edition of the present work, by Messrs. O. Järte and F. von Koch, for it presented some features which distinguished it from that of most European countries. As the diagram will also show, the result of this policy was successful in so much as the situation rapidly changed for the better, spectacular unemployment disappearing even in the course of 1923. The idea embodied in Swedish deflation policy on this point, as well as in all others, was to create, with the smallest possible delay, the necessary adjustment of the different parts of the body politic to the new price level. Accordingly, money wages had to go down in order to enable industry to begin afresh and absorb the masses of the unemployed. For this reason mobility of labor between different trades and localities was maintained as far as possible; assistance to the unemployed was given, first, through relief works, not "doles." And payment at the relief works was, as a rule, kept somewhat below the wages for unskilled labor in

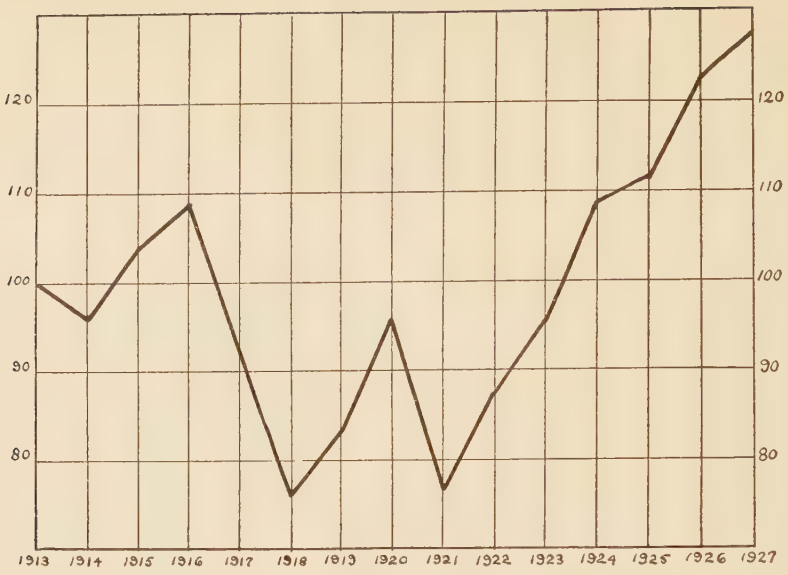


Diagram V

Volume of industrial production, 1913-1927.

(1913 = 100)

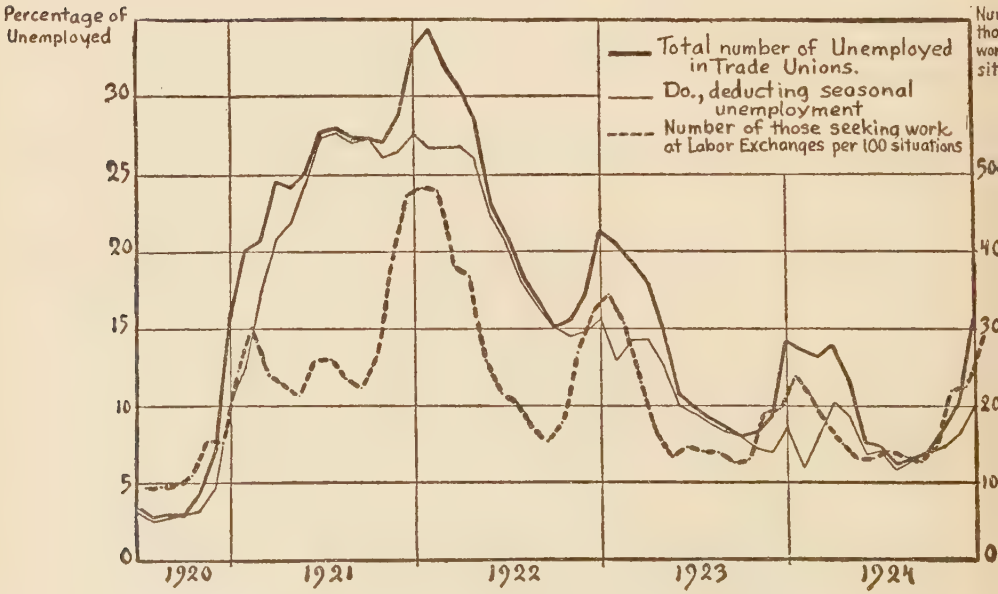


Diagram VI

Extent of unemployment, 1920-1924.

the open market, in order to put pressure upon the workers to accept situations of a normal character as soon as they were offered, in preference to remaining outside ordinary employment.

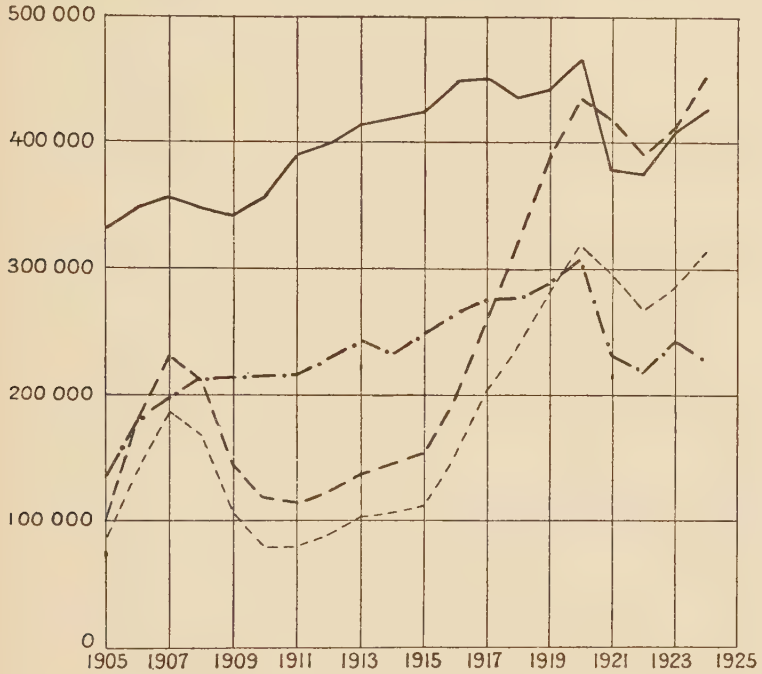


Diagram VII

Employers' and labor unions, 1905-1924.

Industrial workers and handicraftsmen
Employers' unions: Number of workers
All labor unions: Number of members
Industrial labor unions

Successful as this policy certainly was in mastering the enormous increase in unemployment in 1921 and 1922, it has proved to be unequal to bringing unemployment back to its pre-war figure. Unemployment statistics are tricky things, and it is, therefore, necessary to tread cautiously; but, broadly speaking, unemployment appears to have remained some 50 per cent above its pre-war level. It is difficult not to connect this with the unprecedented increase in real

wages, as shown in Diagram IV (p. 21), being something like 21 per cent in annual wages up to 1924, and even 131 in 1927 (as compared with 1913 and 1919), in spite of the great shortening of the hours of labor through the eight-hour day. This is not difficult to account for. For labor unions generally take their stand upon money wages rather than real wages. As has been pointed out already, the Swedish unions were found to be unable to prevent a serious fall in real wages before 1919, because money wages then rose; and, in the same way, they prevented real wages from adjusting themselves after 1920, because money wages were then falling. And the enormous increase in the power of Swedish labor unions, not only as compared with the total number of industrial workers but also with employers' unions, during and after the War, is clearly brought out in Diagram VII.[1]

So far, Swedish employers appear to have proved true prophets when they said that a policy of deflation could not adjust the wage level to the price level. Whether the result was welcome or not is no concern of the author; here it must simply be stated that the unemployment policy pursued was unable to prevent a strong simultaneous rise in unemployment figures and real wages, as compared with pre-war conditions, and that such was the result, humanly speaking, of the rise in the value of money. The present situation will be considered in the next chapter.

In other directions the influence of the great slump in prices has been of a less enduring character.

In one respect the increase in the value of money might be expected to fall more heavily upon the economic life of Sweden than upon that of certain other countries, and particularly that of Britain, on account of the great part played by credits, and banking credits in particular, first in business concerns, and also in the case of private owners of company shares; and upon this point, also, the situation was made far more serious through the most uncalled for rise in prices during 1919-1920. Loans advanced on stocks and shares play a principal part in the credits given by Swedish private banks. At the end of 1920, they amounted to kr. 1,855,000,000 ($500,000,000), or 38.6 per cent of the total home credits. The

[1] From Part IV A of the Swedish edition. Especially noticeable is the fact that the enormous unemployment in 1921 and 1922 had only small influence upon the membership of the trade unions, as is shown in the diagram.

loans of banks on shares amounted to the following figures, as compared with the total share capital (and reserve funds) of limited liability companies: 22.9 per cent in 1912, 27.3 per cent in 1916, and 26.7 per cent in 1919. It is, further, clear that a fall in prices must particularly influence the price of shares, for shares must be expected to fall, not merely on a parallel with prices, but much more quickly, both for the subjective or psychological reason that the business world is dominated by great pessimism when prices are falling, and, for the very good objective reason, that debts of companies are not diminished in amount when the value of money is rising, i.e., they steadily rise in real value. Loans on shares and the total home credits of banks had, besides, increased during the boom of 1919-1920; the turn of the year 1919-1920 showed the highest known figure for such loans; and the next year ended the highest for total home credits, in spite of the wholesale price level having fallen considerably below its maximum on both occasions. The situation, consequently, became very serious.

An increase in protests of bills of exchange and failures naturally followed, but not in proportion to the fall in the prices of shares or the real difficulties of business concerns, because the banks were afraid of the results—to the whole business world and, consequently, to themselves—arising from extensive failures; they therefore refrained from collecting their debts, and preferred assuming a controlling influence over the assets of their debtors. This, of course, did not prevent the banks from being drawn into the difficulties of industrial concerns; and the Swedish banking world was, principally for this reason, made to feel the consequences of the fall in prices to far greater extent than was the case with banks giving only short-time credits, like the British. On the other hand, it must be added in justice, that the difficulties in Sweden were considerably less devastating than those in Norway and Denmark. Financial companies, more or less connected with the banks, had most to suffer; almost all of them lost their total capital and caused heavy losses to the banks besides. Banking difficulties went much further, however, and a number of banks had to be reorganized, often by direct or indirect aid from the Treasury. The money of their depositors was saved in this way, it is true, but a number of middle-sized banks lost their own capital and assets more or less completely; and the losses were also very heavy in the case of one of the large banks. Figures for the

writing off of banking assets do not tell very much. A somewhat incomplete computation gives us about kr. 700,000,000, but part of this simply means a fictitious reduction corresponding to the higher value of money. Another part means real losses, however, and the two cannot, by any means, be kept apart.

Even in the case of the banks that were saved, often they were still under the necessity of retaining their interest in, and assuming the management of, industrial concerns; and the disadvantages of this were felt by both sides alike. The period of banking reconstruction is now past, but Sweden has found it impossible wholly to do away with this tendency, which existed before the War and which very greatly increased after it. The present situation is, in this respect, greatly improved, as compared with conditions in 1921-1922; but the investments of the banks in industry are probably even now considerably in excess of pre-war times. From the report of a Royal Commission on Banking, reporting in 1927, it may be seen that the percentage of banking credits given to industrial concerns having a share capital in excess of kr. 50,000 ($13,400), as compared with the total amount of stocks, reserve, debenture capital, and credits of these companies, amounted to 16.3 in 1913, rising to 29.2 in 1921, but falling back to 22.3 in 1924; the following years have shown a further improvement. Similarly, it was found that 92 per cent of all companies were independent of the banks in 1913, but only 73 per cent in 1924; companies practically owned by the banks were 3 and 19 per cent, respectively. It will certainly take some time before pre-war conditions are reached, though they are ahead.

With regard to the general situation of different trades it is far more difficult to decide how far present conditions are the result of disturbances which have gone before, or to what an extent they are the effect of independent circumstances. Some of those Swedish industries which were wood consumers were in an unusually favorable position both during the War and for years afterward; this has remained true for the pulp industry in particular, at least up to 1927. On the other hand, the iron industry, which was enormously stimulated during the actual war years, has since then had to contend with most serious difficulties, at least that section of it which produces ordinary (not high quality) iron; partly from more or less accidental, but also from permanent circumstances.

There can hardly be any doubt, however, as to the total result of

war and after-war factors upon the exchange situation between Sweden and the rest of the world. For the index of import prices remains much lower than that of export prices, when compared with 1913; for 1928 the figures given are as far apart as 128 and 147. This cannot possibly be accounted for by any increase in the "quality" of Swedish exports, i.e., in the labor, etc., represented, and must consequently mean that a great deal more foreign goods are received for each unit of Swedish productive power.

CHAPTER III

THE PRESENT SITUATION

This brings us to the question of the present situation in Swedish economic life, either as compared with pre-war conditions, or—which is quite another thing—as compared with what it might possibly have been if the War had never taken place.

Unfortunately there are hardly any reliable computations of the national income of Sweden for earlier years, the powers that be having concentrated upon the far less interesting figures for national wealth. A preliminary study has now been made, however, by one of the younger Swedish economists, Dr. Erik Lindahl, of the national income in 1913 and after the War. For 1924 and 1925 he presents figures for incomes accruing to persons and institutions in Sweden which are 18 and 19 per cent above those of 1913, respectively, if the changes in the cost of living index are taken into account. Per head of population this works out at an increase of 11 per cent. There is every reason to believe that this rise has not only been going on, but has been considerably accelerated, in 1926 and 1927. For the volume of industrial production, as computed by the Swedish Board of Trade, shows a sharp rise in 1926 and a new rise in 1927, being, indeed, 23 and 27 per cent, respectively, above the 1913 basis in these two years, as compared with only 12 per cent in 1925 (see Diagram V).

It is, of course, not altogether easy to arrive at a result with regard to total income from these figures. For, on the one hand, there can be no doubt that agriculture has developed far less, if at all; and this counts for a great deal in a country like Sweden. But, on the other hand, the Board of Trade figures for industrial production must, from the manner of their compilation, leave aside all changes in the relative value of exported and imported products; and as we have just seen that this relation has developed in a direction favorable to Sweden, the figures may be regarded as an understatement of what industrial production, taken by itself, has brought to the country during the last two or three years.

One of the most remarkable results of this has been that unemployment has been, slowly but unmistakably, on the decrease during the

last two years, each month since the spring of 1927 showing a lower figure than that of the same month in the year before. As the level of industrial wages had in 1927 already risen to a figure some 31 per cent above that of 1913 (and 1919), as has been shown above, and continues to move slightly upward, this points to a considerable expansion in Swedish industrial life, even if it be added that agricultural wages have had only a small share in this prosperity.

The present situation is partly explained by the favorable exchange situation as against foreign countries, based upon a good market for timber goods, pulp, paper, and, perhaps even more, the products of engineering and metal industries, for which the Swedes have for a long time shown exceptional aptitude. But this tells only half the tale, if as much as that. The rest is explained by demographical factors which may be of a more temporary character. First among these should be mentioned the remarkable change in the age distribution of the people. The marked fall in the birth rate has diminished the number in the age groups below 15, and this has only in part been compensated for by the fall in the death rate, increasing the ages above 65. Consequently there has been a remarkable increase in the ages from 15 to 65, which represent roughly the adults able to do active work; in percentage of total population this group has increased from 60.4 in 1913 to about 65 in 1927, and in absolute figures this has meant a greater increase than that of population as a whole. It is not difficult to understand that this must result in a considerable increase in production, not only absolutely but also as compared with total population; and probably more than half the total increase must be attributed to this factor.

The influence upon industrial wages ought, on the other hand, to be affected, as the increase in the total income of the community would be set off, from the point of view of the workers, by an increased competition in the labor market. That unemployment has, none the less, been able to diminish must therefore be said to strengthen the impression of expanding trade. At the same time the decrease in the number of dependents upon each worker makes a given wage count for more than before, so that the rise in the wage level means a more than coresponding increase in well-being, in the usual sense of the word.

But production before the War was on the increase at a rapid rate, and figures showing a rise above 1913 are, therefore, clearly

compatible with a position below that which would have been reached if there had been no war, or, more correctly speaking, if the pre-war increase had been allowed to go on. Unfortunately, Swedish statistics of industrial production—though otherwise exceptionally serviceable, in so far as annual figures are everywhere given—underwent some important changes in 1913, so that it is difficult to make reliable comparisons between pre-war and post-war figures. On the strength of a few mutually independent computations, none of them very reliable, but all pointing in the same direction, it may be said, however, that the annual rate of increase of industrial production between 1914 and 1926 does not appear to have been appreciably—perhaps not at all—lower than that of the period of 1900-1912, when the influence of the change in the value of money is eliminated. Remarkable as this result undoubtedly is, it must not be considered as representative of Swedish economic life as a whole, on account of the slowing down of agricultural development in Sweden after the War. The probably almost unchanged rate of increase in industrial production consequently means that the industrialization of the country is going on even at a slightly increased rate; but the great part played by Industry in the life of the country also makes it probable that the rate of increase for Swedish economic life as a whole cannot have fallen very much behind that of the period immediately preceding the War.

The considerably changed relation of Swedish economics, as compared with those of most European countries, follows from this; for probably not many of them have, as yet, arrived at the same situation. But this may be shown more directly on the basis of capital movements. Before the War—excepting for the three years preceding 1914, however—Sweden was a country which imported capital almost continuously; but the current afterward took quite the opposite direction, not only during the War—as has already been mentioned in a passage above—but at an undiminished rate afterward. For 1927 the known purchases of securities from abroad amounted to kr. 208,000,000 ($56,000,000), which is, in all probability, more than the amount of really new capital applications, in the form of new bonds and new shares, within the country.[1] That the

[1] The year 1928 shows far smaller figures, it is true; but this is owing to the fact that there had been some extensive strikes; and it seems probable, therefore, that the situation in the previous year gives a more correct impression of normal post-war conditions.

relative available amount of savings, as compared with the demand for them, is smaller abroad than in Sweden cannot be in doubt; and this constitutes a significant change in the relative position of the country.

An outlook of moderate optimism is, therefore, natural in Sweden, to a greater extent than in most European countries. This must not be considered as self-praise; for if a neutral country had deteriorated as much through the War as the belligerents, a rather severe judgment would have been called for. There is much more reason for gratitude than for self-praise. But it means that Sweden has, after all, come out of the great conflagration more undamaged than most, and must, therefore, be considered able to be of benefit to herself as well as to others, thanks to her relatively favorable position.

PART II

TRADE AND SHIPPING POLICY IN THE WAR

CHAPTER I

GENERAL SURVEY

Sweden's Commercial Policy Immediately before the War.

During the half century preceding the World War economic life had passed through a period of radical changes. Under the influence of new inventions and technical progress production had increased to an unprecedented degree. Through the improvement of the means of communication new routes had been opened to international trade; and, thanks to these conditions and the ever increasing exchange of commodities, the economy of the different States had more and more merged into a single and united World Economy.

This development had been made possible by the more liberal currents which had been dominant in the field of commercial policy since the middle of the nineteenth century. People had come to realize that international trade, the fundamental object of which is to facilitate the exchange of commodities between countries, is best able to attain its object if it is allowed to work with the greatest possible freedom from external hindrances. The artificial impediments to the exchange of goods between different peoples had been abolished one after another. Those absolute hindrances which had, in earlier times, existed in the form of export and import prohibitions had completely disappeared from the arsenal of commercial policy. It is true that import duties remained in many places as a means of protecting the internal market from foreign competition, and of bringing about, with the aid of such a protected home market, an increase of sales, outside the country, of the increasing amount of the country's products. But even in States where this was the case, the duties were seldom prohibitive. They hampered, but did not shut out, foreign imports; and against the export of home-produced goods nothing at all was done, since export prohibitions had disappeared. Consequently, the principle of liberty in international trade and transport had come to dominate commercial policy; and controversy had been narrowed down to the question of complete free trade or a system of protection based upon comparatively moderate import duties.

The prosperous condition of world trade had also been helped by a net of commercial treaties, containing the most-favored-nation clause, which had been spread over the world, and had ensured identity of treatment for almost all countries. Even if there remained a certain amount of protection of home markets, this meant that foreign competition in itself was given a footing of parity, one competitor not being favored at the cost of another. To add to this, fiscal policy, as a rule, was characterized by great stability.

That the War must disorganize international trade was, it is true, in the nature of things; but the disorganization should not, according to prevailing opinion, be greater than was made unavoidable by the requirements of military operations. For a long time there had been attempts to have this guaranteed by the development and working out of international law, especially in the field of maritime war, and thus regulate the relations between belligerents and neutrals. The rights and duties of both parties had been made clear; and how far belligerents might legally go in their treatment of neutrals had been stated with particular care.

When the War came about, bitter controversies arose as to the real meaning of this generally accepted order of things; but as the object of the present investigation is not concerned with international law, it will be enough to give here only a sketch of what the Swedish Government held to be international law, as generally accepted. It would be difficult, perhaps impossible, to understand the true character of Swedish commercial policy and, therefore, Swedish economic and social history, during the War, without a statement of this background; for the Swedish Government regarded the upholding of the conquests of international law as one of its most important objects.

These questions had been given formal regulation by the Declaration of Paris in 1856, the Magna Charta of the laws of sea war which had been accepted by all civilized States; and, further, by agreements made in connection with the second Peace Conference at The Hague in 1907, and in the Declaration of London in 1909. The last-named Declaration had not been ratified by any one of the Great Powers of Europe, it is true; but, as is formally stated in the Declaration, it was simply an expression of existing conventional law, so that it did no more than embody what would have been regarded as such even without the Declaration.

The international laws of sea war, existing at the outbreak of the Great War, did not, in any way, limit the rights of private citizens of neutral countries to carry on their trade in whatever way they chose, but was, on the contrary, only intended to regulate the right of belligerents to hamper, for their purposes, this freedom of trade. Among the admittedly legitimate forms of restraint that could be used by belligerents were the blockade, the laying down of conditions covering contraband of war, enemy destination and examination of ships and cargoes. The Declaration of Paris laid it down that a blockade, in order to be binding, must be effective, i.e., be supported by a force strong enough effectively to prevent access to the blockaded area. The Declaration of London extended this rule by a stipulation that the blockade should be limited to ports and coasts belonging to or held by the enemy, and that the blockading Power should not be allowed to prevent access to neutral ports and coasts. According to the Declaration, the blockade must also be enforced impartially against the flags of all countries, and due notice must be given to neutral Powers.

If the blockade was not effective, neutral vessels were not to be kept from bringing to the ports of a belligerent any kind of goods which did not fall under the designation of absolute contraband of war. Consequently, also, so-called conditional contraband might lawfully be imported, under the condition, it is true, that the goods could not be proved to be destined for use by the armed forces of a belligerent or by administrative agents or purveyors of the State. The meaning of contraband of war was carefully circumscribed in the Declaration of London. Among those things that must always be regarded as absolute contraband were arms, projectiles and explosives for war use, military equipment, animals that could be used for war, armor-plate, men-of-war and parts of them, instruments and machinery for producing war materials, etc. Under conditional contraband of war were listed those things which could be used for peaceful as well as military purposes. Some of them, such as provisions, fodder, money, clothing, textiles, and shoes for military purposes, railway materials, vessels, fuel, and lubricants, could always be held to be conditional contraband. As to other things, a previous notification was necessary. Objects and materials which could not be used for war purposes, however, were on no condition to be considered contraband.

Particularly important to neutral trade were the rules of "continuous voyage," i.e., the question whether a cargo destined for a neutral consignee in a neutral port, there to be discharged, was to be protected or not, in case it could be shown that the cargo was, as a matter of fact, intended to be forwarded to an enemy destination. According to the Declaration of London, absolute contraband with an ultimate enemy destination could be seized even if consigned to a neutral port for discharge; while conditional contraband was, in this case, not to be seized. Even if seizure did take place, it was not to be definitive without being endorsed by the judgment of a Prize Court.

A necessary consequence of these rules was the right of belligerents to search neutral vessels, in order to make sure of the nationality, and port of destination of the vessel, and the destination and the possibly contraband character of the cargo. The right of search in the first instance, according to the practice of international law, simply meant a right to inspect the ship's papers. If these gave cause for suspicion, only then was a search of the vessel and cargo to take place. Such a search ought to be made as speedily as possible, and, on principle, at the place of hail. Only if suspicion was very strong, and if a thorough investigation at the place of hail was impossible on account of the character of the cargo, the weather conditions or want of time, was it lawful to take the vessel into a port for the purpose of examination.

The General Developments in Commercial Policy during the War.

From the point of view of commercial policy the War meant a radical change-about as compared with the days of peace. During those happier times the incessant increase of production and the difficulties of finding markets had caused exports to be the dominant interest in commercial policy. Now, on the other hand, an adequate supply of goods, and consequently imports, became the central desideratum. In order to protect supplies of goods within the country, a number of export prohibitions were issued, and it was made a matter for government decision whether, and to what exent, exporting was to be permitted. In order to increase their own stocks the belligerents tried to draw the needed goods, at any price, from allied and neutral markets, which were the only ones still open. For this purpose import duties were, to a great extent, abolished; and there

was an exchange of goods prohibited of export by the home country, for those of other countries which were subject to the same restriction.

If the neutral States of Europe were able to maintain their position of neutrality, their situation differed widely from that of the belligerents. True, the general disorganization of the world's trade must necessarily create difficulties for neutrals as well as belligerents; their imports must be curtailed by dislocation of production and by export prohibitions on the part of belligerents. The attraction which the belligerents must be expected to bring to bear on every sort of goods compelled neutrals to adopt measures of self-preservation, in the shape of export prohibitions. But, on the other hand, production could largely go on as before; the exchange of goods between neutrals might be expected to remain relatively uninfluenced by the War; and the great oversea centers of production, the United States, above all, might be reckoned upon for supplies of goods which could no longer be had from customary European markets. As to exports to belligerents, prospects ought to be favorable on account of the great demand and the disappearance of competition. A lucrative carrying trade between belligerents was also to be hoped for.

The necessary qualification was that trade should be allowed to go on upon the lines laid down by pre-war international law. At the beginning, this also appeared to be possible, as both Great Britain and Germany expressed their adherence, on principle, to what was regarded by neutrals as the fundamental rules of international law. The prize law regulations issued by Germany in August, 1914, were, in almost every point, in accordance with the Declaration of London; and the British Government, in an Order in Council of August 20, 1914, also declared its intention to be governed by the same rules, with certain modifications. But the hopes of neutrals were soon to be shown to be illusory; and the change in things was rapid when the belligerents found it was impossible for them to be victorious simply by the use of military means. The War, then, largely became a trial of endurance, covering almost all fields of social life. In this struggle it became of vital importance to cut the enemy off from supplies from the outside, in order, thereby, to undermine his economic life as a whole. The effort was, in other words, directed toward overwhelming the entire population of the enemy, the civil

no less than the military. The starvation of the enemy, the general economic embargo, became the final object of economic war.

It is clear at once that a war with so vast an objective could not be limited by the rules of international law, as above outlined. Only on the hypothesis of an effective blockade could belligerents be allowed, according to those rules, to isolate the enemy from contact with the outer world. But during the World War the conditions for such a blockade did not exist. It is necessary to keep this in view to understand actual developments. Belligerents neither wanted nor wished to strike at neutrals. But international law, as understood by neutrals, became a distinct hindrance to the aims of belligerents. Consequently, the rules of international law must be modified according to the changed conditions or, as it was said, by the requirements of modern war and its new methods. In the eyes of the belligerent peoples, fighting for their lives, the contraventions of international law were considered unavoidable consequences of the conflict; it appeared a question of subordinate importance if neutrals suffered, as neutrals would, in any case, have little to complain of as compared with the sufferings and sacrifices beneath which they were, themselves, groaning and bleeding to death.

But, it goes without saying, neutrals could not here see eye to eye. In their opinion, international law, built up by the efforts of centuries had, in the first place, been created to protect the interest of those not at war. The belligerents, having in earlier times professed adherence to the principles of international law, ought not now to render them powerless by arbitrary measures, and allow their blows at the enemy to fall upon innocent third parties.

The first tendency to put the rules of international law out of court appeared at an early stage of the War. These tendencies became more powerful, first among the belligerents. But, in time, they came to influence public opinion even in neutral countries. As the struggle grew more and more bitter, and its consequences made themselves increasingly felt, considerations due to neutrals were more and more thrown overboard. In this way the World War created a series of controversies between belligerents and neutrals. The deciding factor in this long conflict was the fact that those neutral States which suffered most were lacking in the resources necessary to command respect for their international rights, as understood by themselves. Neutrals, consequently, had to give way, step by step,

before superior force. Their protests, made again and again, sometimes combined, sometimes individually, finally became useless, as they were unable to put power behind their words. They had to give up one position after another, and, in the end, under ever increasing difficulties and, though aided by all their powers of diplomacy, submit to the will of the belligerents and frame their commercial policy according to new conditions.

The sketch which follows shows this development in its broad lines during different periods of the War. In this chapter I shall indicate only some fundamental differences in the geographical and military situation between the Allied and the Central Powers, in order to explain the difference in the methods employed by the two groups.

Through their strength at sea the Allied Powers, with Great Britain at their head, had in their hands the keys to the great overseas producing centers. It was from the supplies in these countries, in the first place, that the Allies wished to cut off the Central Powers. As the German fleet defended the North Sea coast of Germany, inside Heligoland, and practically commanded the Baltic, Germany could not, however, be cut off by a blockade, under the rules of international law. On the other hand, it was possible for Great Britain to bar the Channel and, by a line of patrols—beyond the reach of the German fleet in the North Sea, and stretching from the British Isles to the west coast of Norway—prevent access to all countries so cut off. But this included not only Germany but also her neutral neighbors, Holland and the Scandinavian countries—Sweden, Denmark, and Norway.

These geographical factors made it necessary for Great Britain to gain control over the commerce of these neutral countries; for only in that case could the imports of Germany from beyond the sea be regulated and limited. For this purpose Great Britain established a new form of commercial blockade, indirectly aimed at neutral countries, too; and this blockade became more and more efficient.

The commercial war waged by the Central Powers took another form. Their inferiority, on the sea, gave them even smaller chance to blockade the enemy's coast, along the lines of international law. But they tried, none the less, to create a blockade of their opponents. Their principal weapon was the submarine. At the same time the Central Powers made the same changes as did the Allies in the rules

governing contraband of war, continuous voyage, right of search, etc. The submarine campaign, also, was more and more directed against neutrals. The losses in vessels, cargoes, and human life caused by it meant extremely serious consequences from a neutral point of view. But, however brutally the submarine war may have been waged, the blockade maintained by the Allies, from the point of view of commercial policy, was even more damaging. The reason lay in the fact that the line of German submarines, in contrast with the British line of patrol, was situated between the neutrals and the enemy, so that Germany, in her efforts to keep supplies from Britain, could turn directly against the exports of neutrals, but lacked reasons for preventing their imports. Even more important was it that Germany lacked the ability to control the overseas trade of the neutrals.

The position of the neutrals was further weakened through the diminishing of their number, as one country after another was drawn into the vortex of the War. By 1915 six of the Great European Powers had entered it; and when, in 1917, the last of the great neutral Powers, the United States, also became a belligerent, the most powerful mouthpiece of neutral interests, and the only one commanding the necessary resources for making her influence felt, was silenced.

The scarcity of goods, naturally following from the War and increased by the blockades and other measures of the belligerents, in time also created a real dearth in neutral countries. The cry for goods made itself more and more heard, and the question of supplies became the central problem of neutral commercial policy. Under the influence of this the question of exports fell into the background, though it did not cease to create serious troubles at times. In this situation the resources in goods and tonnage of the neutrals became their most important weapons of defense in the commercial war.

This necessitated so many measures for regulating the economic life of the State that toward the end of the War they came to dominate the whole field of commercial policy. Countries had guarded themselves with export, import, and tonnage restrictions of all possible sorts; and free international intercourse and exchange had all but disappeared and given place to a motley group of administrative measures of interference and State control.

CHAPTER II

THE FIRST HALF-YEAR OF WAR

Sweden's Declaration of Neutrality.

When war broke out opinion was practically unanimous in Sweden as to the course to be followed. For one hundred years the country had been maintaining a consistent neutrality and had been able to enjoy uninterrupted peace. The ties connecting Sweden with the intellectual life of the leading countries of both belligerent groups had of old been strong, and intimate commercial relations existed with both. As to the second point, it may be enough to point out that Germany and Great Britain were the two countries which held the foremost places in Swedish foreign trade. Of the imports of Sweden normally one-third came from the first and one-fourth from the second; and, of Swedish exports, one-fifth went to Germany and from one-third to one-fourth to Great Britain. The natural love of peace of the Swedish people and the traditional character of Swedish foreign policy, as well as the material interests of the country, consequently led Sweden to keep out of the War if possible; only in self-defense did the nation expect even to consider any change in this.

In complete agreement with the dominant public opinion the Government, with Hj. Hammarskjöld at its head and K. A. Wallenberg as Minister of Foreign Affairs, hastened to give public proclamation to the neutrality of Sweden during the War. The governments of the two remaining Scandinavian countries, Norway and Denmark, acted likewise. In order, at the same time, to emphasize the mutual love of peace between the countries of the Scandinavian peninsula, the Declarations of Neutrality were supplemented by a declaration to the effect that the governments of Sweden and Norway had exchanged binding assurances that would keep the state of war in Europe from leading either of these countries to take measures against the other. These declarations were greeted with lively satisfaction both in the Swedish Parliament and in the country at large. This made it clear to everyone that the Swedish people were unanimous in upholding the policy of neutrality. But the nation

was, at the same time, fully resolved to defend its neutrality to the utmost, and to tolerate no infringements upon the independence and vital interests of the country.

With the proclamation of neutrality as the guiding principle of Swedish action during the War, the line of commercial policy was also forecast. Commercial relations ought to be maintained with both sides, with liberty of action and no entangling ties with either of the belligerents. It was clear from the very first that this would create difficulties. The exposed geographical position of Sweden, lying in the immediate vicinity of the belligerents and at the very meeting-point of their spheres of action,—between the Baltic, governed by the German fleet, and the North Sea, dominated by the British,—clearly foreshadowed trouble.

In this position the Hammarskjöld Government from the first placed itself on what it regarded as the basis created by international law. International law must outline a neutral's commercial liberty of action in time of war, and its rules were regarded as binding upon belligerents as well as neutrals. Sweden was ready to fulfill the obligations created for a neutral by these rules, in accordance with her declaration of neutrality solemnly given; but she also considered she possessed the corresponding right to enjoy the advantages guaranteed by that same international law.

This fundamental view of the part to be played by international law the Swedish Government shared with the governments of the other neutral countries. But she stressed this attitude more than those other countries. To the Swedish Government it was the duty of Sweden as a neutral State to work, even to the extent of making sacrifices, "to preserve" as King Gustavus V said at the opening of Parliament in 1916 "the heritage of international law which had been won by the efforts of centuries, and in which Sweden had played an effective and honorable part," and to contribute to the maintenance of, and obedience to, the rules of international law as they had been hitherto accepted. Such a policy the Swedish Government, at the same time, regarded as the most certain means of defending the honor of the country, its independence during the War, and its future independence in the economic and commercial field.

This principle was adhered to in every way. The Hammarskjöld Government did not limit itself to protests when the principles of international law were considered to be infringed by the belliger-

ents; the Government, at the same time, tried to the utmost to avoid making any agreements or arrangements which were not consonant with this fundamental concept, and avoid doing anything that would imply that measures not in accordance with international law had been agreed to by Sweden, even though only indirectly. In preference the Swedish Government gave up advantages which might have been gained through an infringement of the law, making, at the same time, a firm, if passive resistance; and when concessions became, at last, unavoidable, such concessions were limited to the utmost.

Thus, the defense of international law became the distinctive mark of Swedish commercial policy during the first years of the War. It is necessary to keep this in mind, if the attitude of Sweden toward the two belligerent groups is to be understood. What was regarded or interpreted by one side as favors to the other must be seen in the light of this principle consistently upheld, or as conditioned by the geographical position or commercial situation of Sweden.

The Period Following the Outbreak of the War.

The outbreak of hostilities at once brought Sweden's foreign sailings and trade to a standstill. The unexpectedness of a general outbreak of war, the danger that the country might, against its will, be forced into it, the insecurity caused by the mine laying and other measures of the belligerents, military operations impending in waters around the Scandinavian Peninsula, and other such factors had, in themselves, been sufficient to explain the paralysis of the first moment. But they were strengthened for very real reasons by the stoppage of navigation, the paying off of crews on account of mobilization and, before everything else, the fact that normal marine insurance did not cover the new risks which lay in mines and military operations generally.

Swedish vessels abroad, not in neutral harbors, made haste to get home; and during the first part of August, 1914, hardly a single Swedish vessel put to sea for any lengthy voyage. There was a general decision to play a waiting game, in view of the peace which might be expected within a few months.

At the outbreak of war Sweden possessed an extensive merchant marine. During the last decades of the nineteenth century, Swedish shipping in the North Sea and the Baltic had made great progress, and regular lines to Great Britain, France, and Germany had been

established. The decade immediately preceding the War marked the rise of Swedish transoceanic shipping. Besides, a considerable number of tramp lines had been set going between Sweden and the Mediterranean, America, South Africa, the Far East, and Australia. Exchanges of goods could, consequently, be made to a considerable extent in Swedish vessels, which became of so much more importance during the War, as foreign tonnage in an ever increasing degree ceased to call at the ports of Sweden. And the thing that made decisively for a renewal of economic life, after the first stupefaction following upon the outbreak of war was that shipping connections, the arteries for the flow of goods into and out of the country, were again made to function. This could not be done, however, without an organization for marine insurance, and here the assistance of the State was necessary. In fact, the State took it upon itself to ensure against war, under certain conditions; a Royal Decree was issued on August 17, 1914, and on the same day the State War Insurance Commission was established. Thanks to this intervention of the State and the efforts of Swedish shipowners themselves, life and movement soon was revived in Swedish ports. Shipping was already moving and most actively, in the beginning of September; and it was shaping itself after the conditions created by the War.

The greatest difficulties at this stage came from the mines of the belligerents. These, and those laid by Germans in particular, had a much greater extent than during previous wars. They were laid along the coasts of the enemy as well as in the open sea, and not only led to the destruction of neutral ships and cargoes—(the first Swedish vessel was blown off the British coast on September 2, 1914)—but also meant delays and increased expenditure, because it became largely and troublingly necessary to alter trade routes.

Other difficulties soon followed. As the direct relations between the Central Powers and the great centers of production oversea had already become greatly hampered, Germany made the most of the chances open to her, to provide herself with the necessary goods via neutral territory, and to export her excess of goods in the same way. The countries especially available for this purpose were Holland, Denmark, and Sweden. From their German connections business men in these countries received numerous requests to become middlemen between Germany and the rest of the world; and many German commercial agencies and branch offices in neutral countries grew up

for the same purpose. In this way an important carrying trade via neutral countries was created during the first months of the War and handled commodities like cereals, mineral oil, copper, tin, nickel, and jute.

This carrying or transit trade to the Central Powers, which was considered by neutrals as altogether lawful and legitimate within the limits drawn up by the Declaration of London, very soon, however, was regarded with suspicion and disfavor by the Allies. Already, about the end of September and the beginning of October, French and English papers contained hints or complaints that, in the case of various goods, the North-European neutrals, like Sweden, were acting as middlemen for German commodities. Such complaints swelled in number and strength, and the authorities of Allied countries took measures to prevent this trade by a stricter control over shipments to these neutral neighbors of Germany. The gradual break-up in the rules of international law had thereby begun.

The Beginning of the Break-Up of the Maritime Laws of War.

In the Order in Council of August 20, 1914, in which the British Government expressed its adherence in principle to the Declaration of London, some modifications of these rules had been made and they were far from insignificant. The most important stipulated that conditional contraband might be seized whenever the goods had an enemy destination, even if such goods were to be discharged in a neutral port. This meant a considerable extension of the principle of continuous voyage. The next step in the same direction consisted in an increase of the scope of conditional contraband. The contraband lists published by Britain on August 4, 1914, had closely adhered to the lines of the Declaration of London. On September 21, 1914, the list was, however, broadened first, by the inclusion under conditional contraband of a number of articles which had been put upon the free list in the Declaration of London, and which were, consequently, under no condition, to be considered as contraband; and, second, of commodities which were not mentioned in the Declaration, such as raw copper, lead in bars or tubes, lead sheets, rubber, hides, skins, and iron ore.

The declaring of iron ore contraband touched Swedish interests very closely, as iron ore constituted one of the great exports of

Sweden; and, above all, it was an export with a German destination. As such exports from the north of Sweden consisting of magnetite, principally went via Narvik, in Norway, to Antwerp and Rotterdam, for transshipment to Germany, the new Declaration meant the blocking of this export for some time. Negotiations were immediately entered into with the British Government, however, and they led to iron ore's being struck from the contraband list. After that shipments by the North Sea could go on again. When the British contraband lists were revised a second and a third time in the course of the autumn of 1914, magnetite was not included. But, in other respects, the lists were considerably extended; and, in particular, the number of commodities listed as absolute contraband was greatly increased.

To this extension of the British rules of contraband was added a new practice with regard to the capture of neutral vessels, which was worked out during the autumn months of 1914. According to this practice British war vessels, instead of making their search in the open sea, took the ship to a British harbor, and there examined its papers and the character of its cargo. If a cargo thus treated was to be allowed to continue its voyage to the port of destination, the British then claimed that all assurance should be given that the cargo was intended for consumption in the neutral country of destination and would not be reëxported.

This system, creating individual engagements against reëxportation, was given the character of a formal enactment by the Order in Council of the British Government of October 29, 1914, an Order important in principle as well as in practice. In it, it was declared that conditional contraband in a vessel destined for a neutral port might be seized if the goods were consigned to order, or if the ships' papers did not show the consignee, or if they showed a consignee within a country belonging to or occupied by the enemy. It was further stipulated that in these cases the owner of the cargo must prove its non-enemy destination; and, thereby, the rule of the Declaration of London as to the full evidential power of the ships' papers was set aside. By this Order in Council the restrictive qualifications of the theory of continuous voyage, which had been regarded as valid with regard to conditional contraband according to international law, were in important respects nullified.

As the next step in the plan, on the part of Britain, to drive neu-

tral shipping into one particular channel—(in order to facilitate and strengthen British control)—the neutral countries drastically criticized this Order of the British Admiralty of November 2, 1914. Referring to the mines laid by Germany, this Declaration proclaimed the whole North Sea to be a military area, and within this area all merchant and fishing vessels became subject to the greatest dangers from mines and the operations of war vessels. Consequently, notice was given that ships could not, without great risk, take the route to the north of Scotland. Instead, shipping would be directed along a certain route across the North Sea from Norway to Scotland, then along the British east coast, and from there westward through the Channel.

On the part of Germany certain steps unfavorable to neutral trade were also taken during the autumn. In October German patrol ships in the Baltic began to seize neutral vessels and take them into German ports for search; that is, to take measures analogous to those of the British. On the other hand, Germany did not, during this period, enlarge the rules of contraband, except by adding new commodities to the list of conditional contraband on October 18, on November 23, and on December 14.

In the middle of August, 1914, the German Government had declared that pit-props were to be considered as fuel, which was conditional contraband according to the Declaration of London. The extension of the list of contraband in November put every kind of dressed lumber under conditional contraband. The reason given was that dressed lumber was used in England for barracks for the new troops, and in France for dugouts and artillery emplacements. As dressed lumber was the most important article of export of Sweden and most of it usually went from the northern ports of the country via the Gulf of Bothnia through the Baltic, and Sound, and the North Sea to British and French ports, this declaration, which put an end to such traffic for the time being, created serious disturbances. Negotiations, therefore, were entered into with Germany. As to their conclusion, in the spring of 1915, more will be said further on.

It goes without saying that the Swedish Government, like those of other neutral countries, beheld these changes in the rules of the laws of sea war with anxiety. On account especially of the British Admiralty Order of November 2, making the North Sea a theater of

war, deliberations were, at the initiative of the Swedish Government, begun in Stockholm with a view to taking united action for the defense of neutral commerce and shipping; and on November 12, 1914, the Swedish, Norwegian, and Danish governments agreed upon identical notes of protest, which were handed to the representatives of Great Britain, France, Russia, and Germany, in the three northern capitals. After having shown the importance of the preservation of international law, not merely for the sake of those nations that were neutrals for the time being, but for all nations, a number of particularly important principles were laid down in the following terms:

A serious danger is menacing neutral trade because of the spreading of mines on the great trade routes of the sea. The placing of mines without due consideration for peaceful shipping is clearly contrary to the rights of neutrals, and has not only resulted in great material destruction loss but also in heavy losses of human life.

The freedom of the seas and the inalienable right of neutrals to make use of all routes open to general commerce have also been reduced and limited by demands designed to compel neutral vessels to follow distinct routes and call at certain ports, in spite of the fact that neutral powers have not given legitimate cause for suspicion which might explain and much less justify such restrictions.

Contraband—absolute as well as conditional—has changed its meaning, in part it has been extended out of all proportion, which constitutes an encroachment upon the rights of neutrals.

By applying the principle of continuous voyage and presumptions unfavorable to neutrals, conditional contraband has, as a matter of fact, been placed upon the same footing as absolute contraband, a new measure fraught with the most serious consequences.

With regard to search and capture of vessels rules which have been generally accepted for centuries have been set aside. This means loss of time to legitimate trade and consequently heavy expenses.

In the measures here pointed to—and they do not stand alone—there can be seen an aim to control the trade of neutral countries in a way which is incompatible not only with the rights of neutrals, but also with their duties.

This note of protest may possibly have contributed to the fact that the route north of Scotland was not really blocked; and most Scandinavian ships bound west continued to follow it.

Obstacles in the Way of Swedish Imports.

Growing directly out of the outbreak of war, the Swedish Government had issued a number of export prohibitions, covering arms, ammunition and other war materials, coal and mineral oils, cereals, etc. These prohibitions, at the beginning, did not cover transit goods, however. Without particular licenses, goods, even if under export prohibition in Sweden might, consequently, pass through Sweden to Germany if reconsigned or reloaded in a Swedish port without entering the country. This limitation of the scope of Swedish export prohibitions soon gave rise to difficulties, especially with regard to imports of grain. The need in Sweden for foreign supplies of cereals varies with the quality of the harvest, but may, in general terms, be said to amount to about one-third of the total annual consumption of cereals, or about 300,000 tons. Before the War imported grain came principally from neighboring European countries like Germany, Russia, and Denmark. The War blocked access to these markets, and it now became necessary to turn to other quarters, such as the United States, Argentina, and Australia.

By Great Britain, however, it was now made clear that unhampered imports of cereals were not to be expected by Sweden unless security was given as to the impossibility of reëxport.

As imports of cereals were of vital importance to the country, Sweden on October 12, 1914, made a declaration to Great Britain to the effect that overseas imports of grain, reaching Sweden in complete agreement with the rules of international law, were called for by the needs of the country itself, and that exports of imported cereals to any belligerent would not be allowed. Shortly before, on October 9, the Swedish Government had issued instructions making the export prohibitions extend to transit goods coming into Swedish harbors, with the exception only of goods, the final destination of which was made clear by the papers accompanying them.

Supplies of cereals were thus secured for the two following years and were allowed to come in till the autumn of 1916 without being stopped by the Allies. This favorable result was helped to a great extent by the fact that importing had been taken over by an agency of the Swedish State, and, consequently, put under State control. Practically no exports of cereals or flour occurred all through the War.

On the other hand, Sweden, before the War, had been exporting an excess of animal foods, principally butter and pork, which largely went to England, and of other meats, the greater part of which went to Germany. These exports of pork and other meats increased enormously after the outbreak of war, and such exports, as well as those of butter, which were also considerable, on account of the high prices and the less risky transport conditions, found their way almost exclusively to the Central Powers. The exports of meats, which culminated in the autumn of 1914 and the first part of 1915, then gradually diminished, and disappeared altogether during the general scarcity of food in 1917.

The question of grain imports having been settled as just described, new difficulties soon arose in connection with the control of overseas shipping which had been established by Great Britain in the course of the autumn of 1914. According to this new practice, one homeward-bound ship after another was stopped by the British naval forces when skirting the British Isles, and was taken to a British port to have its cargo examined. Goods covered by Swedish export prohibitions could, in some cases, be vouched for by the Swedish Minister in London. Goods which were free of export from Sweden, on the other hand, had to be covered by a declaration made on the honor of the owner, that there would be no reëxport, which declaration was to be delivered to the British authorities through the agency of the Swedish Legation in London.

This procedure clearly meant trouble for shipping. Shipowners as well as owners of cargoes became subject to expenses and losses when ships were taken into British ports and especially on account of the loss of time before goods were set free. Consequently, imports were delayed and their cost increased.

To avoid such obstacles, and especially to make some arrangement by which individual declarations might be made, so far as possible, unnecessary, negotiations were entered into at the beginning of November, 1914,—that is, just after the publication of the new British rules of contraband of October 29,—in Stockholm between the Swedish Minister of Foreign Affairs, on the one hand, and the British and French Ministers on the other. By the Allies it was proposed that Sweden should prohibit the export from Sweden of all goods and raw materials on the Allied contraband list, which the Swedish Government wished to import for bona-fide consumption

in Sweden. In return the Allied governments were to keep neutral vessels carrying conditional contraband from being hampered more than was called for by the verification of the ships' papers and a correct description of her cargo, on condition that the goods were addressed by name to consignees in Sweden, and that the cargo was prohibited for export. The classes of goods chiefly concerned were declared to be—omitting cereals and flour—mineral oils, copper, rubber, hides, leather, and fodder. The negotiations, which went on for a month, resulted in an agreement on December 8, 1914; and even in this agreement—which did not become of any great practical importance—the tendency of Swedish commercial policy, as governed by international law, is foreshadowed. The agreement was not a treaty in any real sense of the word, but took the form of a memorandum of the British and French Ministers, which had been accepted by the Swedish Government. The agreement did not contain what had been proposed by the Allies in the beginning, i.e., an engagement of the Swedish Government to prohibit the export of all such goods as were put upon the Allied list of contraband. It contained only the engagement that if such goods were put upon the Swedish list of export prohibitions, some facilities were to be granted them in the ports of the Allies. Sweden, taking its stand upon the principle that new export prohibitions should be issued only in so far as they became necessary for the protection of supplies within the country had, consequently, retained its freedom of action.

The agreement of December 8 came into force at once. And, immediately before this, the Swedish Government had extended its export prohibitions to cover many new items.

CHAPTER III

THE AGGRAVATION OF COMMERCIAL WAR FROM THE SPRING OF 1915

The Submarine Campaign and the Commercial Blockade.

During the spring of 1915 the commercial war was made much worse by the submarine blockade of Great Britain established by Germany, and the so-called long distance blockade of the Central Powers by the Allies.

The starting point of the submarine war was the proclamation of the German Admiralty of February 4, 1915. By it the waters around Great Britain and Ireland, and the Channel, were declared to be areas of war, in which every enemy merchant ship found after February 18, was to be destroyed, and where neutral vessels would be in great danger of being taken for enemy ships. These measures were to be reprisals for methods of war which had been used by Britain in violation of international law; the treatment of the North Sea as a military area in accordance with the declaration of the British Admiralty of November 2, 1914, being particularly specified.

By this proclamation the German submarine war was also aimed directly at neutrals and their shipping. Even apart from the absolute violations of neutrality which followed on this, it is clear that the proclamation, considering its results, was not in accordance with the rules of international law covering the capture and treatment of neutral prizes. According to these rules, a captured neutral vessel must not be destroyed by the captor but must be taken into a port where the legality of the action could be investigated. It is true that if this should endanger the security of the warship, or the success of operations in which it was taking part, a captured neutral ship which might rightly be regarded as condemned could, in exceptional cases, be destroyed. But, in this case, persons on board must be saved and all ships' papers and other evidence which might be considered by the owners as being of importance for the adjudication of the legality of the capture must be transferred to the warship. This procedure could hardly be followed by submarines.

They would, in particular, be unable to care for the crews and passengers.

The situation became even more critical when a recommendation was issued by the British Admiralty to British merchant ships, to the effect that they should, in case of danger, make use of neutral flags in order to escape German warships more easily—a measure which was likely to undermine the respect due to the flags of neutrals.

These acts on the part of belligerents caused the Swedish, Danish, and Norwegian governments to make representations to the British and German governments in identical notes. By the seriousness of the situation created by the German proclamation of February, some ships plying the North Sea were kept in port in the days following February 18, and Swedish marine insurance rates were raised. This waiting game was soon given up, however, and Swedish shipping again became active, though North Sea voyages took longer than before, and some precautions became necessary. In addition, other measures, so-called marks of neutrality, painted on the sides of vessels in the colors of the Swedish flag, were used in many cases.

The response to the German declaration was not slow to come. At the beginning of March, 1915, the Allied governments notified neutrals of their intention to take measures, in a reprisal for the German measure, and that they now intended to keep goods of every description from reaching or leaving Germany. The British and French governments reserved their right to retain and bring into their ports all vessels containing goods of presumed enemy destination, or origin, or belonging to the enemy. An Order in Council of March 11, 1915, gave details of this program.

By this Order in Council, which became the basis of the coming economic war waged by the Allies, an actual blockade of the Central Powers was established, as the latter were to be cut off from all imports, even if they consisted of goods which were neither absolute nor conditional contraband. But it was distinguished from a blockade within the meaning of international law, by several features, that of greatest importance to neutrals being that access to their own ports was also prohibited but, on the other hand, captured goods which were not contraband of war would, unlike the procedure in a real blockade, be paid for at the end of the War. After new

deliberations among themselves, this caused the three Scandinavian governments to deliver identical notes of protest to the British and French governments.

Certain Agreements with Germany.

As has already been mentioned, negotiations had been entered into with Germany in the autumn of 1914 regarding the serious menace to Sweden's dressed lumber, owing to their having been put on the German contraband list in November. The result was an agreement in March, 1915.

Under this agreement, which did not cover pit-props, however, vessels loaded with dressed lumber were allowed a free passage even if destined to an enemy country, provided that the vessel was able to show a certificate, issued by a competent Swedish customs officer, to the effect that the lumber was of Swedish origin and it consisted of neither fuel, pit-props, nor other goods considered as contraband according to German regulations. In return the Swedish Government made free for export to Germany a large quota of horses, and declared that dairy products and meat would not be prohibited of export to Germany up to a given date. This agreement as to Swedish lumber remained in force up to the time of the unlimited submarine war, which began in March, 1917.

But on account of the measures of Germany new difficulties soon arose for Swedish ships sailing to and from the Baltic. The German Government, which up to now had, on the whole, upheld the contraband rules of the Declaration of London, April 18, 1915, made certain changes in them, in which the stipulations in the British Order in Council of October 29, 1914, with regard to the enemy destination of conditional contraband were largely duplicated. At the same time the German contraband lists were considerably extended, so that coal and coke, for instance, became absolute contraband. These stipulations were supplemented by instructions to the commanders of the German patrol ships in the Southern Baltic, to the effect that, at least in the case of ships containing contraband goods, all outgoing vessels which might be thought to have enemy destinations, and also all incoming vessels, should be taken into Swinemünde for inspection, with the exception, however, of ships carrying Swedish lumber. The object of this was, in the first place, to keep contraband from reaching Russia, and the result was a system of visit and search,

much like that undertaken by Britain in the matter of ocean traffic skirting the British Isles. As the new rules were very troublesome to Sweden, negotiations were entered upon in Berlin.

In an agreement reached in the middle of June, 1915, it was conceded by Germany that incoming Swedish vessels, destined for a Swedish port and carrying absolute or conditional contraband, should be passed without calling at Swinemünde, if the cargo was subject to Swedish export prohibitions, if there were no particular reasons for suspecting enemy destination, and if the master of the ship, at the request of the commander of a German war vessel, made a declaration on oath that his ship was bound directly for the Swedish port of destination. On application the competent Swedish customs authority was to inform a German Consul in Sweden as to the date of arrival in a Swedish Baltic port of a Swedish ship which had, in the Sound, been hailed by a German warship.

Increased Difficulties for Overseas Imports.

The agreement with Great Britain and France of December 8, 1914, did not become of any greater importance, and the result was that the spring of 1915 held a prospect of increased difficulties instead. To keep all goods from reaching the Central Powers the British control of neutral trade had extended itself always more and more. As we know already, strong Allied suspicions had been aroused as to the quantity of imports which, during the autumn of 1914, had been reaching Germany via neutral territory. And, in the case of certain things, like cotton, with which the Allies long hesitated to interfere out of regard for the United States, this trade was still going on.

Vessels bound for Sweden were in ever increasing numbers brought into British ports and their cargoes discharged and examined. Parts of cargoes which aroused suspicions of enemy destination were seized for delivery to the Prize Court; and, where reasons for suspicion appeared less clear, shipments were detained for further investigation. On account of the congestion of ships in the ports of inspection the duration and cost of delays steadily increased, and the difficulties of finding storage room for unloaded goods also constantly increased. In order to get a given cargo out of British control it was found not to be enough that the ship was con-

signed to a Swedish firm, the name of which was given, and that the consignee had declared that the goods should not leave the country. For it was claimed by Britain—and not altogether without reason—that these guarantees against reëxport were not always effective, but, on the contrary, that it frequently happened that imported cargoes were none the less reëxported to Germany, often after having passed through the hands of several middlemen in the meantime.

There were also new reasons for friction. On behalf of the British crown, the British authorities began to requisition non-condemned but detained goods; and the claim was put forward that to be freed, goods which had been entered for examination must have a British export license, when such were on the British export prohibition list. After the British Order in Council of March 11, 1915, by which the program of complete embargo was put into force, the control over neutrals was made even stricter. Practically all vessels bound for the Scandinavian countries had to be taken into a British port for examination, and, to an ever increasing degree, goods were seized and put into the Prize Court. The tendency to use such control to ration the supplies of neutrals, and limit them to what was considered sufficient for their own needs became more and more marked.

In principle seizures by Britain were founded upon the presumption that the goods were destined for enemies of the Allies. But the motives for such suspicions became ever more numerous and of the most motley description, such as that the shipper, in the country of origin, was known to have German connections; or that the broker was considered to be a German agent; or that the goods had been ensured in, or were to be paid for, in Germany; or that the consignee was believed to have German business connections, all of which might, as a matter of fact, be unknown to the purchaser, or be in other ways irrelevant. Even independently of circumstances pertaining to the particular case, the simple fact that the importing country's stock of the same sort of goods was already great enough to cover the legitimate needs of the country, was considered to be a sufficient reason for causing a particular cargo to be suspected.

The evidence made use of by the British authorities was obtained from every available source of information, and the owner of the goods often found it difficult to check it. Available statistical data, items in the press of both neutral and enemy countries, intercepted

telegrams and correspondence, information through more or less secret channels in neutral countries themselves, etc., were made use of. An extensive mail and cable censorship was also organized.

When a certain cargo had been seized, the owner had to negotiate with the British Attorney General for the liberation of the goods, and, if this failed, to answer before the British Prize Court. In both cases, and especially in the second, a cumbrous and costly investigation had to be set on foot. The Prize Court worked very slowly on account of the enormous increase of work, and also because its organization did not meet the situation, so that great loss of time resulted.

The disadvantages were increased by a decree of the Prize Court to the effect that seized goods must, in many cases, be sold on the spot. It might be that the goods were perishable, like foods and fodder, or that it was impossible to find room for them, or they might be requisitioned on behalf of the British Government. Even irrespective of the losses to owners which were often the result of this, the country for which the goods had been bought would be deprived of them.

As for goods destined to Sweden, considerable quantities of oils and raw materials were stopped and seized in the first part of 1915. During January so much copper was held up that there was serious danger that the Swedish copper mills might have to close down. Among other things which became subject to the same treatment, cotton, machinery, lard, rubber, hides, and leather may be mentioned. Later in the year large quantities of wool, tanning, sulphur, raw phosphates, and coffee were held back. In all, during 1915, 95 Swedish insured vessels were taken into British ports. During the autumn of 1914 the number had been 39.

Negotiations with Great Britain in the Summer of 1915.

During the spring of 1915 these impediments gave rise to a number of complaints and reclamations on the part of Sweden. Referring to the rules of international law and the memorandum of the Allies of December 8, 1914, the Swedish Government protested against the numerous seizures of Swedish ships, the long delays suffered by ships and goods in British ports, the seizure and putting into the Prize Court of cargoes destined for Sweden, the requisi-

tioning of such goods on the part of the British Government, and the demand for British export licenses for overseas goods which had been detained. The British Government, on the other hand, required Sweden to keep a stricter control over exports from Sweden to the Central Powers and an extension of the Swedish export prohibition list, demands which Sweden, considering the principles upon which she had taken her stand, was not at all willing to accede to.

In time it came to be felt on both sides that the agreement of December 8, 1914, was no longer sufficient; and after some preliminary discussions on July 2, 1915, negotiations were set on foot in Stockholm by special delegates, with the object of reaching a general agreement upon all points of difference pending. In spite of differences on some points the delegates on both sides were able, at the beginning of August, 1915, to agree upon a plan for a commercial arrangement which was in important respects common to both sides. This plan was not acted upon, however; and after some further conversations about the end of October, 1915, the two governments had to declare the negotiations at an end.

CHAPTER IV

THE POLICY OF EXPORT PROHIBITIONS AND COMPENSATIONS

Swedish Export Prohibitions.

It has already been made clear that the policy of export prohibitions revived during the World War in both belligerent and neutral countries, and became of ever increasing importance. They were used as the principal regulator of economic life, not necessarily by stopping exports altogether, but as tools in the hands of governments to control the exports of a country, to decide their extent, their distribution among other countries, and the conditions upon which it was to be made. The reasons for decreeing the prohibitions were numerous.

The first Swedish prohibitions were mainly dictated by a desire to retain goods for the needs of the country itself. But soon they became of use for the purposes of commercial policy. This was made clear in the first instance by the fact that at an early stage, the belligerents in their licensing and blockade policy, appeared to lay particular stress upon the question of whether goods of a certain sort were, or were not, subject to prohibition of export and, consequently, subject to Government control as to reëxport in the country of destination. Still more important did this side of the prohibitions become when the peculiar system of war-time compensation had been worked out during 1915. The growing scarcity of goods made the belligerents increasingly unwilling to part with their goods without distinct compensation, which ended in a sort of barter of goods for goods between the various countries. Export prohibitions created the legal basis for this barter, and the exchange of export licenses became the form it took.

Besides this, export prohibitions served other purposes not connected with commercial policy. In some cases the rise of prices in the home market was met by prohibition of export; in other cases the purpose was to bring about agreements as to prices, through which exporters acquired a certain right to export by promising lower prices to home consumers.

For one reason or another, sometimes for several at the same time, the number of Swedish export prohibitions was gradually increased. Generally speaking, in addition to war materials, foods and raw materials for which the country was usually dependent upon imports were the first to be subjected to prohibitions; goods partly manufactured, and products wholly manufactured from such raw materials came next; and purely domestic products and manufactures, in which foreign materials did not enter at all, or only to a very small extent, came last. But the extension of the export prohibition list was rather a slow process in Sweden. In this field, and in other matters of commercial policy, the Swedish Government upheld the principle of freedom of trade as long as possible. But the tendency was not to be halted, especially after the period of the most serious scarcity in 1917. And, following the agreement with the Associated Powers on May 29, 1918, up to the end of the War, there no longer existed any important exports goods free of export except dressed pine and fir, mechanical pulp, and paving stone. But this is getting ahead of the facts.

Swedish Transit Stipulations.

When Swedish export prohibitions on October 9, 1914, were extended to transit goods, in cases where the destination of goods could be proved by accompanying documents, such goods were excepted, as has already been said. Besides this, transit was allowed for otherwise prohibited goods, if accompanied by a through bill of lading between Denmark and Norway, or Denmark and Norway on one side, and Germany and the countries to the south on the other.

As the Swedish Government did not, however, consider it consonant with the neutrality policy of the country to allow war materials transit over Swedish territory to a belligerent Power, and as the transit route via Sweden became of increasing importance when other routes had been blocked by ice, it was found necessary, on January 9, expressly to prohibit all transit through Sweden of arms, ammunition, and certain other specified goods used directly in war. This prohibition of transit was maintained till the end of the War, no licenses being given to either side. With regard to goods not covered by the decision of January 9, no change was made, if the ultimate destination was made clear by the shipping bills. In consequence, in the spring of 1915, there was built up a considerable

transit trade to Russia from the west, via Sweden. In order to control this traffic, which became desirable for reasons based on commercial policy as well as others based on the capacity of the Swedish railways—the above mentioned exception was abolished on May 4, 1915. Thereafter, Swedish export prohibitions consequently covered all transit trade with regard to goods coming in by sea, so that licenses became necessary in every case. With the exception of goods shipped by rail between Denmark and Norway, and belonging to classes other than those mentioned in the decision of January 9, 1915, the control by the Swedish authorities of transit trade in goods prohibited of export became, consequently, complete.

Compensation Arrangements with Great Britain and Germany.

In view of the increasing number of export prohibitions it became more and more desirable to establish a special organization for the treatment of questions relating to the policy of prohibitions and licenses, especially since the prohibitions had also been extended to cover most of the transit traffic. Consequently, on June 8, 1915, a special agency, the State Commerce Commission, was instituted, and given the task of dealing with questions of new prohibitions of export, and the granting of export and transit licenses. The Commission had for its chairman a late minister of foreign affairs, Governor E. B. Trolle, and members representing the Departments of State and business life; its duties were gradually extended, so that it became, in the end, a sort of general adviser to the Government on questions of commercial policy, and, in consequence, came to exercise an important influence throughout the War.

It has just been said that a system of compensations in the exchange of goods had been inaugurated. At the beginning it was principally a question of so-called special compensations. Swedish business houses, wishing to import machinery, completely or partially manufactured, which had been prohibited of export in the respective countries of origin, were allowed to export the amount of raw materials necessary for the manufacture of such machinery,—generally copper or other metals; and, conversely, the exports of the products of Swedish industry were made dependent upon raw materials necessary for the production of these goods being set free for import into Sweden.

During the second part of 1915 the system was extended. In these new cases the material connection between import and export goods did not exist; the exchange was based upon the principle that one country allowed exports of a certain agreed amount of prohibited goods, in compensation for licenses given by another, based upon a consideration of the relative values of the two groups of goods, without there being any connection between them.

What made the Swedish Government willing to enter into such arrangements was, in the first place, the great need of imports of coal and coke, which, in peace-time, amounted to some 5,000,000 tons annually. Before the War about 90 per cent of this had been furnished by England. But during the War a change took place. In 1915, 2,800,000 tons were imported from Britain, and 2,200,000 from Germany; and, during the following year Germany took the lead, delivering 4,400,000 tons to 1,700,000 from England. In 1917 the corresponding figures were 1,700,000 and 600,000 tons, respectively, with 1,600,000 and 1,100,000 tons for the last year of the War. By the first part of 1915, too, both countries had prohibited the export of coal, so that compensation had to be given by Sweden.

Exchange on the basis of compensation to Britain goes back to the middle of 1915. During the summer of that year some special agreement had been made between the two governments, by which export licenses for certain British goods were guaranteed to Sweden for licenses of transit via Sweden for Great Britain. When, after that, during the autumn of the same year, negotiations for a general agreement came to nothing, an arrangement was made by which a system of compensation formed a basis for trade between the two countries. A current compensation account was created, by which exports of British goods to Sweden were compensated for by transit goods to and from Russia and exports of Swedish goods to Britain. Thanks to this arrangement during the following years Sweden was able to import considerable quantities of British commodities, coal in the first place and, in addition, different sorts of textiles, rubber tires and other rubber products, lead, tin, tin plate, manganese iron, pig iron, crude iron, and manufactures of steel. The Swedish exports given in exchange were principally pit-props, Swedish iron, and high-grade steel. To increase the quantity of goods receivable in compensation, the Swedish Government, on January 29, 1916, put an export prohibition on chemical pulp, of which Great Britain

normally takes a considerable amount. But this measure proved unsuccessful, as the British Government declined to regard pulp as an object of compensation, and replied by prohibiting imports of Swedish pulp.

In the case of Germany the compensation system followed somewhat different lines. With her, too, a general schedule of compensation was arranged. But it comprised only articles which played a comparatively unimportant part in the trade between the countries. Stress was, instead, laid upon separate agreements, made at intervals, by which the chief commodities were exchanged, the most important of which were the so-called Coal Agreements. By them imports of coal to Sweden were secured through bimonthly agreements, the first one dating from the beginning of 1916. Other separate agreements were also made, especially concerning the export of horses from Sweden. Besides coal, Germany's chief exports to Sweden were potash and fertilizer for Swedish agriculture, salt, drugs, soda, Glauber's salt, aniline and mineral dyes, other chemical products, special sorts of machinery, electrical apparatus, surgical and optical instruments, and certain specialized varieties of iron and steel, such as coke-smelted pig iron, and sectional iron. As exchange exports from Sweden, along with horses, at first, much use was made of cattle and dressed beef, swine, and pork. As supplies of foodstuffs in Sweden decreased, these exports became restricted, however, and disappeared in 1917. After that, as goods for compensation, industrial products came increasingly into play, such as iron alloys, wood pulp and paper, pyrites, carbide of calcium, nitrate of calcium, wood tar, turpentine, liquid rosin, and ordinary resin. Sweden also possessed valuable materials for exchange in her iron ores and her high-grade iron, and such things were likewise used more and more for the purposes of compensation.

Consequently, exchanges based upon compensation came to dominate Swedish commercial relations with the belligerents during the War,—in the case of Great Britain up to the commercial agreement of May 29, 1918, and, in the case of Germany, to the end of the War. Supplies from Great Britain and Germany were thus brought into comparatively regular channels and were assured so far as was at all possible. The system as a whole worked satisfactorily, though of course in a rather ponderous and time-wasting way.

On the other hand, no system of compensation was established

for overseas imports. It was considered a matter of principle not to have to give compensation to a belligerent for imports from a neutral country; and there was also the practical consideration that Sweden's exchange commodities would hardly have been sufficient for this purpose. Transoceanic imports, consequently, remained unregulated; and as no general agreement could be made with Great Britain, they had to be secured through negotiations between the Swedish and British authorities, and by taking each case separately.

CHAPTER V

WAR TRADE LEGISLATION

Foreign Control of Swedish Economic Life.

During 1914 and 1915 Great Britain had been able to come to an agreement with certain neutral neighbors of Germany, through which their exports to the Central Powers were regulated. The absence of corresponding regulation lent a particular character to the situation of Sweden during the years that followed. For as Great Britain was unable to secure, in such a way, the desired guarantees against reëxport from Sweden to the Central Powers, her eagerness to limit these exports by other means necessarily increased. For this purpose Great Britain sought by guarantees to bind Swedish importers against reëxporting, and also to do it by private agreements, and this was supplemented by many other measures by which England made attempts to control Swedish foreign trade without the assistance of the Swedish Government.

The guarantees which were used at the beginning of 1916 for goods imported to Sweden from the West differed considerably for goods of British origin, and for goods from overseas. For the former the guarantee contained the clause that neither the goods themselves nor products thereof should be exported to the Central Powers; this was called a "product clause." No objection had been made to this on the part of Sweden, as each country must be allowed to make whatever conditions it pleased for its own goods. This guarantee had, consequently, been accepted, and was used in the compensation system officially sanctioned for Great Britain. Correspondingly, the guarantee demanded by Germany contained the same "product clause."

Since the autumn of 1914 the guarantees given by Swedish importers of oversea goods to British inspecting authorities were, on the other hand, limited to a stipulation that the imported goods themselves should be consumed in Sweden and not reëxported; as to products of the goods imported nothing was said. If such a guarantee had been given, for example, for American cotton, nothing prevented the export to Germany of either the fabrics or the clothing made of such raw cotton.

On the part of Britain claims were soon raised that these guarantees should be made more rigorous, above all, that those referring to oversea goods should contain a product clause. But the Swedish Government was not willing to agree to such an extension of the guarantees. As has already been hinted, the Government in this case, too, took its stand upon international law, as there did not appear to exist good reason for the extension of the theory of continuous voyage to such a point that it was unlawful for the subject of a neutral country freely to dispose of imports of neutral origin, after they had been made into new products. However, as the Swedish authorities were unable to prevent private persons and firms from giving such guarantees as they thought fit under the stress of circumstances, guarantees containing a product clause became increasingly common in the case of oversea imports, though they were not authorized by the Swedish Government.

As has already been mentioned, England did not consider it sufficient to have guarantees against reëxport. When considering the question whether a certain cargo ought to be allowed to go to Sweden, a distinct difference was made between different Swedish consignees, the right being taken away from firms which were subject to suspicion for one reason or another. In this connection the so-called "black lists" became of the very greatest importance. About the end of 1915 the British Government had been empowered by Parliament to prohibit persons and firms in Great Britain from carrying on trade with enemy persons and organizations in neutral countries. In February, 1916, the first list of such persons and firms was published, containing some fifty Swedish firms mentioned by name; and, time and again, new names were added. Besides these official lists, called "statutory lists," there were a number of secret lists in which "suspected" firms in neutral countries were entered. The original object of these measures was to prevent the subjects of Great Britain from trading with blacklisted neutral firms; but the system was also brought into use to stop oversea importing by such firms, as cargoes consigned to them were treated with particular suspicion. They were seized and put into the Prize Court, because of a presumed enemy destination.

The counterparts of these Allied black lists were to be found in Germany. And such black lists aroused keen indignation and lively protests in neutral countries. Besides hampering the exchange of

goods they created a general insecurity in commercial transactions, which was the more troublesome because, in the case of secret lists, often the firms in question did not even know of their own "suspicious" character, and were, consequently, ignorant of the measures prepared against them and the reasons for those measures. That belligerents, through the menace of blacklisting and its consequences, were able to bring strong pressure to bear upon the commercial world that was neutral is as clear as the fact that the system gave wide scope for sycophancy, and for unfair practices by competitors.

To procure the information needed for such control, many different methods were used. The system of guarantees was of special value as a means of getting into contact with the Swedish business world. Declarations were not accepted by the authorities in Great Britain without having been viséed by the British Legation or a British Consulate in Sweden. When an importer asked for such a visé he was asked to answer questions that led in different directions. They often referred not only to the transaction just then under consideration, and to the general requirements and business position of the firm in question, but also to the sort of business carried on by its competitors, and the general situation in that and kindred branches of trade.

Such control in time went even further. As a condition for a visé a demand might be made that, for instance, the firm in question should prove its statements by producing its correspondence and books, or even that the country's agents abroad should, for the same purpose, be allowed access to the firm's offices. Besides this, it became more and more common to include clauses guaranteeing the importer's willingness to permit control of the future use made of the imported goods, either in their original or in some new form, after the arrival in the home country. Bank guarantees for the proper fulfilment of the agreement, and heavy penalties in case of its being broken were also gradually included.

Another side of the control system consisted in agreements which the British Government tried to make with shipping firms and forwarding agents. During 1915 it had made agreements with Danish and Norwegian shipping firms, according to which their vessels were freed from the obligation to unload their cargo in British ports of inspection, and were allowed to keep on to a Danish or Norwegian port where unloading was permitted, though only on the condition

that the goods should not be delivered to owners except after consent, in every case, of the British authorities; so that the goods remained under British control even after having reached their destination. Agreements of the same sort were drawn up for Swedish shipping firms.

The Law Governing Commerce in War-Time.

In this way a foreign influence interpenetrated Swedish business life. A net of private guarantees and agreements in the interests of belligerents was in the way to being created, and control by these Powers was being strengthened within the country's own boundaries. Behind the back of her responsible government Sweden's freedom of action in the commercial field was thereby hampered, unity of leadership in commercial policy was endangered, and the authority of the State attacked.

The serious consequences of all this caused the Swedish Government to make an attempt to find a remedy in new legislation. A bill was laid before Parliament in 1916, was passed, and on April 17, 1916, it was put into force as the "Law Governing Commerce in War-Time." It was intended to serve a double though interconnected purpose,—on the one hand, to place under the control of government authorities all economic agreements with and guarantees given to foreign Powers by private persons, and, on the other hand, to prevent foreign supervision of Swedish economic life.

The first of these objects the new law tried to effect by making the validity of guarantees to a foreign Power (involving a limitation of the freedom of importing, exporting, or disposing of goods, or sending them to, from, or within the country) dependent upon approval of the guarantee by a Swedish authority, the State Commerce Commission. A guarantee not thus approved was declared null and void, and, consequently, not binding upon the subscriber himself. In order to secure, on the other hand, a strict adherence to duly approved guarantees, and in order to make clauses containing penalties and bank guarantees and rights of foreign control contained in them unnecessary, the infraction of such an approved guarantee, though in itself of a character coming under civil law, was made a criminal offense and subjected to heavy pecuniary penalties.

In order to attain the second object, security against foreign su-

pervision, the new law imposed penalties upon those who, by giving information about their own business or that of others, or by assisting in the obtaining of such information, were acting in coöperation with a control exercised by a foreign Power or acting in its interests. The general terms in which this warning was expressed made it of the broadest application.

Thanks to the new law, order was created out of the chaos of earlier guarantees. Guarantees now had to follow distinct channels and limits were put to the hitherto incessant tendency to increase obligations. Above all, all clauses opening a door to control by foreigners were banned.

Approved guarantees for goods from belligerent countries were drawn up in conformity with those previously used in the exchange of licenses with Great Britain and Germany; i.e., they contained a product clause guaranteeing not only against the reëxport of the imported goods but also of manufactured goods produced from them. In accordance with an already reigning practice for certain commodities, especially coal, even wider guarantees were approved, covering the use of coal for numerous purposes. Thus, the forms covering both British and German coal contained a prohibition against delivering it to any firm listed by the country in question—an allusion to the black lists—and also a stipulation against using such coal for products of military value which were to be exported to the opposing group of belligerents.

With regard to goods from neutral countries the forms of the State Commerce Commission contained, on the other hand, simply a stipulation that the imported goods themselves should be consumed within Sweden while manufactured goods produced from them should be free. As to several important commodities from neutral countries, such as copper, lubricating oils, raw cotton, pyrites, and rubber tires, the product clause had already been approved in 1916.

Very soon it became clear that foreign countries had had their eyes opened with regard to the meaning of the new Swedish legislation, as no guarantees except such endorsed by the State Commerce Commission were accepted by England or Germany. Already, during the summer of 1916, Great Britain made the exports of all goods, even those not covered by the system of compensation, dependent upon such guarantees. Also, in the case of oversea goods, the forms of the State Commerce Commission were accepted by the

British authorities, in so far as no guarantees were taken for goods without such endorsement. But, quite another story, the British authorities did not, as a rule, look upon these guarantees as materially sufficient, if not containing a product clause; and such goods were, consequently, unable to secure free passage through the British line of control.

Also, with regard to protection against foreign supervision, the Law Governing Commerce in War-Time made its influence clearly felt, though the consequences were not so apparent in this field as in the case of the guarantees. Besides abolishing all clauses in the guarantees admitting future control, the law efficiently prevented the cruder forms of foreign supervision, such as the actual inspection of Swedish business records. Altogether, the new legislation exercised strong influence upon public opinion and business morals; and earlier tendencies to give to foreign authorities and agents information concerning business conditions, in order to gain personal advantages, were halted or limited. On the other hand, control by foreign Powers had already taken on so many forms, and was at work in so many different and inaccessible fields, that every sort of legislation against it was necessarily to some extent ineffective.

Shipping Laws.

From the outbreak of war the demand for tonnage in the general freight market had been very strong, for the German and Austrian merchant marines had disappeared from the open seas, and a great part of British and French shipping had been requisitioned for the transport service. During the course of the War this scarcity of tonnage was ever on the increase and could not be checked by the building of new tonnage. Mines and submarine war caused heavy losses of vessels, and the long delays in the ports of inspection diminished the efficiency of available tonnage to a high degree. This scarcity of ships, along with always growing expenditures for bunker coal, wages, insurance premiums, etc., meant increased carrying charges, that is, new burdens upon the business of importing, already heavily enough hampered by all the consequences of commercial policy.

During 1915 and the beginning of 1916 Swedish vessels had been sold abroad to an alarming extent, and there was a movement to transfer Swedish tonnage to less dangerous and better-paid routes

between foreign ports. As Sweden was, at the same time, more and more dependent upon her own tonnage for foreign commerce, measures became necessary to secure State control over the Swedish merchant marine and its use.

For this purpose a prohibition was, March 6, 1916, laid upon the selling of Swedish ships of a certain minimum tonnage, or any share in them, to foreigners and also upon the time-chartering such vessels to foreigners for an unlimited time or for a longer period than six months, unless sanctioned by the Government. These stipulations were supplemented on July 8, 1916, by an order prohibiting owners of steam and motor vessels of a gross tonnage of two hundred tons or more, from carrying goods between foreign ports without permission. The only ships excepted were those plying regularly between Sweden and foreign parts. Between Swedish and foreign ports trade was allowed to continue unhampered to the middle of 1918; then it also fell under prohibition. The reason for this latter extension was, first of all, the necessity of finding tonnage to carry to Sweden goods reckoned upon as a result of the commercial agreement with the Associated Powers of May 29, 1918, of which much will be said later on.

CHAPTER VI

DEVELOPMENTS IN COMMERCIAL POLICY DURING 1916

The Increasing Rigor of the Commercial Blockade.

During 1915 a number of new things had been included in the contraband lists of both Britain and Germany, and further extensions took place during 1916, so that practically all articles of world commerce of any importance had been made contraband, even such as coffee, tea, and tropical fruits. In March, 1916, the Allies abolished the distinction between absolute and conditional contraband. At the same time new and rigorous rules were made with regard to enemy destination. The reason given was that the peculiar character of the War had taken away the real difference between the two sorts of contraband. The unlimited application of the theory of continuous voyage was thus proclaimed indirectly, and, as a matter of fact, it had been practiced by Great Britain since March, 1915.

These principles were carried to their final conclusion when Great Britain and France, on July 7, 1916, put the Declaration of London altogether aside; but considering what had gone before, there was little that was new in this step. Instead of the stipulations of the Declaration new rules were made. With regard to enemy destination the burden of proof was explicitly shifted to the owner, to such an extent that almost anything might be seized and put into the Prize Court; and it was, for instance, to be considered a presumption of enemy destination if a shipment had been consigned to any person who had, during the War, sent contraband goods to an enemy authority or agent, which was practically equivalent to any person on the black list.

In reply to this Germany, on July 22, 1916, changed her Prize Regulations in about the same way. Thus it was laid down that enemy destination should be presupposed, in the absence of particular circumstances to the contrary if, during the War, the consignee had, directly or indirectly, delivered contraband goods either to enemy territory, to territory occupied by the enemy, or to enemy authorities or agents.

Strong pressure was brought to bear when the British Government began, during 1916, to make use of the power of Great Britain over the world's bunker coal and bunker depots. Even at the beginning of the year bunker privileges had been denied to Swedish and other neutral vessels in British ports unless the owners signed far-reaching contracts,—so-called "bunker contracts," by which British authorities were given a voice as to the use of the vessel in question. According to these contracts shipowners promised not to use their ships in the service of subjects or corporations of countries at war with Britain, or of persons in neutral countries on the British black list. These "bunker contracts," the stiffness of which constantly increased, also contained clauses covering the obedience due to their stipulations. In order to prevent them from being made useless by the substitution of German bunker coal the latter was to be seized as contraband. To make easier the procuring of imports for Great Britain, the loading of coal in vessels bound for Sweden, Norway, and Denmark—with the exception of regular liners—was prohibited after April 25, 1916, by a proclamation of the British Board of Trade, unless the vessel had already guaranteed to bring a return cargo to Great Britain or to some other Allied country, or was able to show a certificate of the Board of Trade that such a cargo could not be had. After the promulgation of the Swedish Law Governing Commerce in War-Time, the Swedish Government withheld its approval from such bunker contracts. Lengthy negotiations with the British Government proved useless. Even so, however, bunker coal was furnished to Swedish ships on condition that the shipowners, with the consent of the Swedish Government, should charter one or more of their ships to the British Government or to its Allies.

As to imports from the United States a new order was issued in 1916, by which British control was further increased. In view of the difficulties of examination in Great Britain it had become more and more common for masters of ships to decline to accept goods not accompanied by a so-called letter of assurance given by some British agent in the United States. In order to obtain such a letter, the shipper had to show a guarantee against reëxport signed by the consignee, and this guarantee had to be viséed by a British authority in the country of destination. Thus the refusal of such a visé could keep the goods from being even loaded in the United States. On the other hand, the existence of a letter of assurance did not ensure a

free passage of the goods to the country of destination, for final control continued to be exercised in the ports of Great Britain.

The Law Governing Commerce in War-Time did not lead to any increase in Sweden's imports. For the old differences of opinion between this country and Great Britain remained unsettled. The Swedish Government had not admitted the principle of the rationing of imports according to consumption in Sweden, nor had Sweden undertaken to limit or control exports to the Central Powers. It is true that legal aid had been offered to reinforce the guarantees against reëxportation by Swedish importers. But as there still was lacking a product clause, in so far as oversea goods were concerned, such guarantees were, on the one hand, regarded as insufficient by Britain, and on the other, without the consent of the Swedish Government, they could not be given a legally binding form. Besides this, the new law prevented the British authorities from procuring the same sort of information that had been procured before. Thus, the exchange of goods with Great Britain could go more or less satisfactorily, but oversea supplies became even less in quantity in the summer of 1916, and Swedish liners had often to return home in ballast after having unloaded their cargoes in Great Britain.

To show the quantity of goods bound for Sweden, but accumulated in British ports of examination, it may be noted that the value of such goods, as officially insured, about the middle of 1916, amounted to kr. 32,000,000, and by the end of the year had increased to about kr. 60,000,000. The figures for wool were kr. 12,500,000; for hides, kr. 6,000,000; tannin, kr. 7,000,000; flax seed and rape seed, kr. 8,600,000; coffee, kr. 7,000,000; and vegetable fats and lard, kr. 6,000,000. But these figures give an inadequate idea of the situation. For goods in much greater quantity and of much higher value, but not ensured with the State Insurance Commission, had been unloaded; and, more than that, goods destined for Sweden had been largely sold in the British market. Not only goods from neutral countries but also those coming from the Allies of Great Britain were hit by these measures.

With regard to several important groups of goods, however, imports from overseas, thanks to special agreements with Great Britain, could go on almost unhampered. Even during 1915 an agreement had been made between the British authorities and the Swedish Federation of Cotton Spinners, under which large shipments of raw

cotton, which had been detained in Britain during April and May of that year, were set free. A provisional arrangement having been in force during the first part of 1916, a new agreement was made in August of that year with the approval of the Swedish Government, by which Great Britain allowed monthly imports of cotton, up to 9,000 bales. About the same time another agreement covered Sweden's imports of lubricating oils, the permitted quantity being put at 165,000 barrels for 1916. It is worthy of remark that in both these cases the agreement was founded upon the principle of limiting imports to the amount of Swedish consumption; that, further, guarantees containing a product clause were sanctioned by the Swedish Government; and that arrangements were made by Sweden to control the distribution and the disposal of the goods.

A similar agreement was made with regard to the herring imports from Iceland and Norway. Since the British Government had secured the right to preëmpt the herring catch of both countries there were difficulties in sight for Sweden in the matter of obtaining supplies of this important foodstuff. But negotiations with Britain resulted in an agreement in September, 1916, securing an import of 150,000 barrels of Icelandic, and of the same quantity of Norwegian herring, the importing to be done under the control of Swedish authorities.

During the first two years of the War *exports* from Sweden to overseas markets had been able to proceed without serious disturbances; and to export to Great Britain and her dominions only a declaration of neutral origin had been required. But in this field, too, control was tightened during the second part of 1916, as a British Order in Council of September 25 stipulated that goods exported from a Scandinavian country, Switzerland, or Holland, must, in order to secure free passage, be accompanied (along with the declaration of origin) by a so-called interest certificate issued by a British Consul, showing that no person of enemy nationality, or with whom a British subject was not allowed to trade, i.e., no blacklisted person in a neutral country, had any interest in the cargo in question. These certificates were also used in the case of cargoes for neutral overseas countries. But as Sweden's War Commerce law did not legalize the entire contents of these certificates, they could not, in the beginning, be procured; and a temporary stoppage of exports from Sweden occurred. However, some modi-

fications in the form of these certificates having been made after negotiations, the Swedish Government allowed their use; and exporting could again begin.

Renewed Negotiations with Britain in the Autumn of 1916.

The increased rigor of the commercial blockade after the summer of 1916, and the continued restrictions upon imports to Sweden could not fail to cause grave anxiety. In a memorandum to the Government on July 4, the State Commerce Commission pointed out how serious was the situation in the matter of national supplies. After having emphasized the favorable results of the Law Governing Commerce in War, the Commission declared that forethought and prudence were necessary and the country must be made to understand that an ever intensified scarcity of supplies might be the result of the measures taken by belligerents. For this reason the Commission proposed that preliminary investigations and measures should be taken without further delay, in order to mitigate the harmful consequences of this scarcity. They felt it was important though not sufficient, that the public, considering the difficulties of renewing stocks which had run short, should make the most careful use of goods of direct or indirect foreign origin. Beyond this the State ought to take measures not only continually to inform itself with regard to existing stocks and where they were available, but also to reduce, so far as possible, the evil effects of what might really be ahead. As mitigating measures these were suggested; altering the character of industrial production; a proper distribution of available raw materials and the creation of new forms of employment to take the place of those which might disappear as a result of the scarcity of raw materials.

During the following months difficulties speedily increased. A scarcity of some things, like wool, hides, and the raw materials for margarine, made itself felt in an increasing degree; and the production of margarine had to be discontinued altogether. On September 10, 1916, the British Government absolutely prohibited the exportation to Sweden of many commodities such as leather, twine, coffee, tea, cocoa, dried fruit, cork, etc. This prohibition meant that for the time being no "licenses or facilities" were to be granted for these goods; that is, they were not to be imported either from or by

way of Great Britain. This list was afterward extended, upon several occasions.

During the first two years of the War importing difficulties had mainly arisen merely in the case of the raw materials of industry. The importing of breadstuffs had been able to go to about its normal extent after the autumn of 1914. What now caused particular anxiety was, however, the fact that cargoes of cereals destined for Sweden were, for the first time, held up in Great Britain. At the same time the halting of shipments of strong fodder, oil cake, maize, and fertilizers was a threat to the future production of foodstuffs in Sweden.

As an immediate consequence of the memorandum of the State Commerce Commission the Government made a thorough investigation of the stocks of raw materials, the basic materials of industry, and of the distribution facilities, under state control, of the available supply of commodities that had become particularly scarce. As earlier hopes for the grain crops of 1916 were not fulfilled and the result fell below the average harvest before the War, preparations were made for state regulation of the consumption of breadstuffs. For another important food staple, sugar, rationing according to the system of "cards" or coupons, had had to be introduced in October, 1916.

In this troublous situation the Swedish Government decided to make a new attempt to arrive at a commercial agreement with Great Britain. Negotiations, in which representatives of the French and Italian governments also took part, went on in London from the beginning of November, 1916, to January, 1917, inclusive. And they resulted in a draft agreement submitted by the British negotiators on February 2. Before the commencement of the negotiations the Swedish Government had stipulated that certain cargoes of grain held up in Great Britain should be freed, which in time was done. As for the agreement, unlike the draft which had been the result of the negotiations in the summer of 1915, the new proposal was based upon the principle of a consistent rationing of Swedish imports. The rations, the maximums of which were given in the proposal, and were different for different things, were meant on the basis of pre-war imports, to suffice for what Sweden would necessarily consume. The list included the majority of the important commodi-

ties which Sweden was wont to import from the West, but not breadstuffs or coal.

According to the proposal Swedish exports to the Central Powers were to be regulated, as Sweden was to undertake to maintain efficient prohibitions of export for rationed goods and their products, including by-products and waste. To a certain, but very limited extent, however, exports of such goods were to be permitted.

In order to secure control of the distribution and disposal of the goods rationed it was further proposed that such imports should be placed in the hands of particular import associations, which should also be responsible for their distribution. As before, the direct exchange of goods between Sweden and Great Britain was to be founded on the principle of compensation.

But, before the whole question of this draft agreement had been examined by the Swedish Government, occurrences had taken place which created a fundamental change in the situation.

CHAPTER VII

THE PERIOD OF THE EMBARGO FROM THE SPRING OF 1917

The Unrestricted Submarine Campaign.

Submarine war had been going on all through 1916, and new mine fields had been laid. Some improvement had taken place, however, for Germany, to avoid a break with the United States, had announced that neutral merchant ships would not be sunk without previous warning. The losses of the Swedish merchant marine had, consequently, been less in 1916 than in the previous year; during 1915, 59 insured Swedish ships had been lost, through mines and torpedoes, with a loss of 113 lives. During 1916 the corresponding figures were only 31 and 49, respectively. How many of these ships had been the victims of submarines is not known, though minimum figures are 5 and 9 for the two years, respectively. Toward the end of 1916 an increased activity on the part of submarines had been observed, foreboding new severity in German naval operations. Increased losses by the merchant marines of the Allies as well as by neutrals followed, and the scarcity of world tonnage was intensified. At the same time, as the previous chapter has shown, the rigor of the commercial blockade by the Allies also increased. This was further accentuated, since the Government of Mr. Asquith had been, at the end of November, 1916, succeeded by a new ministry with Mr. Lloyd George at its head. This made itself felt not only in warfare against the Central Powers but also in its attitude to neutrals. The year 1917, consequently, dawned with dark prospects for both neutral shipping and trade. The difficulties were brought to a head by the events following upon the failure of the peace movement made by President Wilson in December, 1916. The World War entered upon its decisive phase in the first month of the new year.

Of fundamental importance was the Declaration of the German and Austro-Hungarian governments on January 31, 1917, by which the so-called unrestricted submarine war was proclaimed. This Declaration meant that within a certain specified area, comprising the waters around Great Britain, France, and Italy, every

sort of navigation was, by every possible means, to be prevented after February 1, 1917, whether vessels sailed under an enemy or a neutral flag, carried contraband goods or not, nay, even if they were transporting goods from one neutral country to another, or were engaged in fishing on behalf of their own people. And this new sort of warfare did not hesitate to sink ships without previous warning, through which the lives of those on board were exposed to the greatest danger. Neutral ships in ports within the war zone at the date of the Declaration were given a very short time to get out of it by the shortest route. And, later and successively, the boundaries of the blockaded area were extended.

The German submarine war, as it had been previously waged, had, in the main, left neutral imports for home consumption unhampered. At least a summary investigation of the ship's papers had been made before the ship was sunk. And if it was sunk, the matter could, later on, be reconsidered, first through diplomatic channels and afterward, if these failed, before a Prize Court. Now, on the other hand, imports and exports were put on the same footing; for vessels sunk within the blockaded area there was no compensation; and, at the same time, the losses of ships and men became much greater than before.

After deliberating together, the Swedish, Norwegian, and Danish governments, on February 12, 1917, sent identical notes of protest against the new embargo to the German and Austro-Hungarian Ministers in Stockholm, Christiania, and Copenhagen, in which notes it was strongly emphasized that the measure was unlawful from the point of view of international law and fraught with serious consequences.

To meet the increased danger from the submarines Great Britain laid a strong barrier of mines across the Bay of Heligoland, with the object of cutting the submarines off from their bases on the German and Belgian North Sea coast. Before doing this the British Government declared, on January 25, 1917, that after February 7, a specified area inside the Bay would be made dangerous to shipping by the measures of the enemy; and the said area ought, consequently, to be avoided by neutral ships. This was of no great importance to Sweden, however, because the zone was outside the usual route of Swedish ships.

Unrestricted submarine war having been proclaimed, all Swedish

trade with Britain came to an end. That followed of itself from the fact that the conditions of Swedish State war insurance did not cover the new risks. But this impediment soon disappeared, as, on February 6, these war insurance regulations were supplemented by stipulations framed to cover the changed conditions. The premiums were, at the same time, considerably increased. But this was not enough to revive navigation. Uncertainty as to the consequences of the submarine campaign remained too great, and shipowners preferred to keep their vessels in port till the situation had become less confused, rather than expose them to the incalculable risks of crossing the blockaded areas.

But other reasons were added to these. In view of the danger that this new phase of the submarine campaign might deter neutral ships from visiting the British Isles and, consequently, might affect supplies, the British Government decided upon the comprehensive use of force. Neutral vessels in British ports were forthwith kept from clearing, and their being freed was made dependent on a corresponding vessel's having arrived in England. Similarly, Swedish ships in French and Italian ports were prevented from clearing. Swedish tonnage thus held up in the ports of the Allies amounted to about 170,000. Vessels having come into a British port were not allowed to return to Sweden unless they brought to England a full cargo of goods of some sort that were approved of by her Government. Among these were foodstuffs, iron ore, iron and steel, nitrates, pyrites, lumber, and pit-props. Vessels arriving in ballast or with less than half a cargo had, first, to make one or two voyages between ports of the Allied countries before going back to Sweden.

But overseas shipping came to a stop also, as England demanded that ships trading overseas should also call at a port in Great Britain. This was further emphasized by an order of February 16, 1917, which gave notice that all vessels, even if plying between neutral ports, that did not voluntarily call at a British port for examination, should be presumed to carry goods of enemy origin or destination, and that the carrying of such goods should be considered sufficient reason for condemning ship and cargo.

As calling at a port in Great Britain must submit the ship to the dangers created by submarine war around the British Isles, efforts were made by the neutrals to have the examination transferred to British ports abroad; but, in compensation, the British authorities

demanded that trade with England be resumed, and to its normal extent.

The Change of Government in March, 1917.

When the Hammarskjöld Government, at the beginning of the War, had proclaimed neutrality as the leading principle of Swedish policy, the nation as a whole had unanimously approved, and all parties in Parliament had, without dissent, given their adherence to the declaration of neutrality. In 1915, 1916, and 1917, repeated utterances in Parliament had shown that the representatives of the people still agreed with the Government that Sweden, while unequivocally preserving her liberty and independence, and preserving her own legitimate interests, ought to maintain her neutral position in the face of both groups of belligerents.

Though there was, consequently, complete unanimity in all responsible quarters as to the course to be followed during the War—the impartial and universal defense of neutrality—it was not, however, long until opinion became divided as to the best method of carrying out this policy, especially in the field of trade. On one side stood the Government, consisting, broadly, of the Swedish Conservative parties, and, on the other, was the Opposition, made up in Parliament of the Liberals and Social Democrats, who constituted the majority of the Lower Chamber, and outside by certain sections of the world of business.

The Opposition's fundamental objection to the commercial policy of the Hammarskjöld Government was that the letter of international law was too stubbornly adhered to, and that the adaptability called for by the changes in the situation was lacking. International law ought to be upheld, it is true, in so far as this could successfully be done, especially in all legal transactions with belligerents; but as it was impossible for a country possessing the limited resources of Sweden to change actual conditions and the trend of things the inevitable should be accepted before it was too late; and the best possible use should be made of each situation as it arose, instead of chaining the country to a position which could not, in the long run, be maintained.

With regard to export prohibitions the critics considered that the Government showed too much caution and too great slowness, both

in issuing new prohibitions and in broadening the old ones, all on account of the principles of liberty of neutral trade upon which the Government had taken its stand. By that, the necessary control of exports was lost and a proper sharing of them between the Central Powers and the Allies became impossible. Consequently, exports, according to critics, played a greater rôle than was to the interest of the country, and—especially exports of animal foodstuffs—they mainly went to the South, drawn thither by the high prices due to the increasing scarcity of goods in Germany. The result was not only that stocks in the country itself came dangerously near to being exhausted, but that prices in the home market rose. This lack of restriction, at the same time, contributed greatly to causing and keeping alive suspicion in the Allies, and to making their control over imports to Sweden more drastic, especially as the Swedish Government was unable to guarantee that goods free of export did not go out of the country in violation of assurances given. The position of the Government did, as a matter of fact, come to this, that middlemen and profiteers were favored at the cost of honest importers, which was an injury to Swedish business life, the difficulties of which were continuously increasing as a result of the increasing rigor of the blockade policy of the Allies.

When the barriers that blocked supplies increased during 1915, the Opposition, more strenuously than before, advocated an agreement with Great Britain, by which the necessary imports from the West might be secured. The upholding of the principle of a legal right to free imports could be nothing but an empty form, simply resulting in rationing along arbitrary lines without sufficient knowledge of the true needs of Sweden, by the British blockade authorities. An agreement ought to be arrived at, even at the cost of certain more or less formal principles. Through it Sweden, herself, would at least be a party to decisions as to the amount of her imports, and, by a promise of adequate Swedish control over the distribution of imports on arrival in the country, the foreign control already established might largely be put aside. The examples of other neutral countries, like Holland, Switzerland, Denmark, and Norway, which had had their imports regulated along these lines, were cited.

After the passing of the Law Governing Commerce in War-Time the antagonism between the Government and the Opposition further increased. This Law had been passed with the assistance of

the parties of the Opposition, it is true; and it was difficult to object to its contents. But it was considered that the application was made too strictly according to the letter of the law. The negative objects of the law, i.e., to prevent the making of undesirable agreements with, and promises to, foreign Powers by private individuals, and the prevention of foreign control of Swedish economic life, were mainly attained. But its positive aims, i.e., the facilitating and increasing of imports, which ought, it was held, to be of no less importance, could not be reached by this method of applying the Law. In order to change this, the Law ought to be supplemented by renewed efforts to reach an agreement with the Allies, thus bringing about some fixed regulation of oversea commodities. The demand for such an agreement became more and more insistent. In any case, a more extensive use ought to be made of such guarantees as were approved under the Law, so that they could be accepted by the Allies, especially with the insertion of product clauses. As matters had now developed, the Law Governing Commerce in War-Time had, by its restrictive stipulations, become principally a barrier against the replenishing of the country's stores; and the serious stopping of imports during and after the summer of 1916 was, to a great exent, laid at the door of this law and its application.

To add to this, there were differences of opinion as to questions more indirectly connected with commercial policy. The parcel post to and from Sweden having, at the end of 1915, been stopped in Great Britain, the Swedish Government by way of reprisal had held back parcel post shipments sent to and from Britain in transit through Sweden. The conflict created by this was made the subject of an exchange of notes between the two governments which ended only late in the summer of 1916. In July of the same year the narrow "Kogrundsrännan"—a passage which had been established during the War in Swedish territorial waters along the most southern part of the coast—had, since it was Swedish coastal water, been mined by the Swedish authorities against foreign vessels, though this was the only route by which non-Swedish merchantmen were able to pass to and from the Baltic without danger from German warships. At the same time orders had been issued by which foreign submarines were refused entrance to Swedish territorial waters, at the risk of being attacked without previous warning. These measures, the reasons given for which had been infringements of neu-

trality from which Sweden had repeatedly suffered, and which had, especially during the summer of 1916, resulted in a number of vessels being captured and sunk in Swedish territorial waters, gave rise to a lengthy correspondence between the Swedish and the Allied Governments. These matters of dispute, as also the acerbity of the answer of the Swedish Government to the note of President Wilson of February 5, 1917, proposing the breaking off of diplomatic relations with Germany by the neutral Powers, had been censured by the Opposition as causing the relations between Sweden and the Allies to grow worse.

The opponents of the Government's policy also repeated time and again, and particularly at the date of the beginning of new commercial negotiations with Britain in the autumn of 1916, that the Hammarskjöld Government was divided within itself as to important questions relating to commercial policy; the majority of the Government, with the Prime Minister at its head, was said to maintain an uncompromising attitude, while the Minister of Foreign Affairs and some of his colleagues were more inclined to a conciliatory policy. And, to add to all this, there were sharp and growing conflicts, partly of a Constitutional character, in the field of home affairs between the Government and the Opposition.

During the session of 1917 this led to a crisis; and on March 4, 1917, the Hammarskjöld Government resigned. Its resignation having been accepted by the King on March 30, a new Government of a moderately Conservative color, with C. Swartz as Prime Minister and A. Lindman as Foreign Minister, was set up. In a manifesto issued on its coming into power this Government gave as its principal object the maintaining of the consistent and impartial neutrality upheld by its predecessors. Difficulties had been increasing in later times, it is true, but the new Government explained that it looked upon such a policy as the most practical means of avoiding them. Striving to prevent the country from being drawn into the War, and upholding, at the same time, its independence and freedom of action, the new Government expressed the hope of having the support both of Parliament and the Swedish people. Some questions of importance, particularly in the demesne of food supplies and industries of the country, were to be the especial care of the new Government and, without delay, negotiations were to be set on foot with this in view.

A Partial Agreement with Great Britain.

The chief change in the situation at the time of the coming in of the new Government was a further falling off in the stocks of various commodities. Trade with Great Britain, as well as with countries abroad, remained at a standstill. Imports from the West came to an end, above all because British regulations kept them from reaching Sweden in neutral vessels.

The question of food supplies, especially breadstuffs, called for particularly careful attention. The quantity of cereals imported during the consumption year had been merely 140,000 tons, enough to meet only about one-half the normal annual needs of the country. The home crop of 1916 had also been unsatisfactory. And, in spite of rationing having been introduced at the beginning of 1917, a serious scarcity of breadstuffs was to be feared, unless importing could speedily begin again. The prospects were further darkened by the fact that commodities urgently needed by farmer and stock breeder were practically at an end. At the same time, vessels detained in British ports at home or abroad carried 85,000 tons of breadstuffs and large quantities of maize and oil cakes belonging to Sweden; and other grain supplies had been bought in America.

In the field of industry the situation was likewise critical. During the first years of war, Swedish industry had had, it is true, to overcome great difficulties to meet its needs in raw materials and the requirements of industry. But, broadly speaking, these efforts had met with success, even if imports had often been delayed and the goods imported had risen enormously in price. And, during the years 1914-1916 industry had, in general, been able to go on to a normal extent. In some fields the business situation had been even very favorable, with full employment and willing markets. Now, however, the embargo on imports had made it necessary for many industries, such as oil refining, margarine making, phosphate milling, and rubber making, to close down more or less completely, for want of raw materials. Others, for instance, the cotton, wool, linen, and jute mills, had supplies only for a short time to come. The 1916 agreement with Britain with regard to lubricating oils had expired at the end of the year, so that scarcity was, likewise, soon to be expected in that field. Lastly, the question of coal was extremely serious, since imports from Britain had ceased altogether, and im-

ports from Germany had, at the same time, become very much smaller because of the coldness of the winter and transport difficulties.

In this situation it had become urgently necessary to come to an agreement with Britain, and negotiations were taken up without delay and carried on with a will. Efforts were made to reach a result which might be satisfactory from a practical point of view, leaving aside points of international law, for which there was, moreover, hardly any place after the new extension of naval war.

On the part of Sweden the initial idea appears to have been that negotiations should be based upon the draft of February 2, 1917. But this was soon found not to cover the situation. The regulation of shipping conditions then came to the fore; and the negotiations, which were carried on directly between the Swedish Foreign Minister and the British Minister in Stockholm, were principally concerned with the conditions for neutral shipping laid down by Britain, which conditions had, in the meantime, been combined with the demand that a number of British ships, which had been blocked in the Baltic by the barring up of the "Kogrundsrännan," should be allowed to make use of this passage. Sweden's first demand was for the release of ships carrying cereals and other important commodities, then held up in European ports of the Allies, and, following that, an admission that Swedish ships outgoing or incoming from overseas should be allowed to call at non-European British ports for examination. On May 8, 1917, an agreement was reached, by which England gave nineteen Swedish ships carrying grain, and detained, some at Halifax, some in the United States, and others elsewhere, unmolested passage, with examination at Halifax, and freed fourteen ships in British harbors with cargoes of cereals and other valuable commodities. In return the Swedish Government allowed 90,000 tons of shipping, with timber cargoes, to pass through the "Kogrundsrännan."

The quantity of grain which reached Sweden, thanks to this agreement, exceeded 90,000 tons. By it the amount necessary to tide things over till the new crop came to the market was supplied. The other commodities, imported under the new agreement and the further negotiations to which it gave rise, were oil-cake, maize, sulphur, phosphorus, cottonseed, pig iron, coal, and miscellaneous goods, about 65,000 tons in all, and 4,000 barrels of oil. Agree-

ments were, besides, made for imports in fairly large amount of twine, coffee, and other goods. A general commercial agreement was, however, not concluded.

At the same time trade with Great Britain could be gradually resumed, Swedish merchantmen joining British convoys. Thus, the direct exchange of goods between Sweden and Britain could begin again, following the same lines as before, i.e., the exchange of British export licenses for Swedish licenses permitting transit and export. Because of the increasing scarcity of goods in England the imports from there constantly diminished, however. A growing unwillingness, in England, to grant export licenses, already apparent in the second half of 1916, became more and more pronounced, new licenses being held back to an increasing extent, and difficulties being put in the way of extending older, and unused licenses. In October, 1917, all export licenses except for coal were annulled, and by the end of the year practically nothing but coal was reaching Sweden. At the same time the transport of goods via Sweden to Russia steadily fell off during 1917, and came to an end altogether after the Bolshevist revolution in November of that year.

The United States Enters the War.

In April, 1917, President Wilson signed his country's declaration of war. The last remaining Great Power among the neutrals had joined the belligerents. This, in itself, necessarily and greatly weakened the position of the States still remaining neutral. But the consequences became greater when, as events soon showed, the American Government, in order to hasten the end of the War in the interests of the Associated Powers, did not hesitate to make use of measures of a commercial policy which even went considerably beyond those previously practiced by the Allies. In the United States fantastic rumors were circulated as to exports from Sweden and the other neutrals of foodstuffs and other things needed by the Central Powers for war purposes; and these statements, often founded upon misunderstood or incomplete information, helped to embitter American feeling against neutrals. Immediately after the Declaration of War the President was empowered to make use of all the resources of the country in the War against the German Government. Drastic regulations as to the clearing of ships and the use of bunker coal

were issued, and a careful check on exports was instituted. By a law passed on June 15, 1917, the President was vested with unlimited powers to regulate the foreign trade of the country by total or partial prohibitions of export. One prohibition having followed another during the next few months, all exports to the European neutrals, except by license, were prohibited about the end of August, 1917.

To the earlier difficulties in the way of imports from the United States, caused by seizures of vessels blockaded by Britain and her demand for letters of assurance, there was now added America's embargo policy which was followed up with a hard-handed consistency. This did not simply mean that American exports were, first of all, reserved for the Allies. If any exports to neutrals were to be allowed, this must be only on very onerous conditions. For example, the demand was made that American coal and lubricating oils should not be used for the production of anything exported to Germany, and that American fodder should not be fed to cattle that yielded anything which, directly or indirectly, was to go to Germany. These demands meant that neutral countries were not to be able to dispose freely even of such of their products as had been made altogether from their own raw materials. By America's press and by individual politicians it was proposed that the neutral countries of northern Europe should be forced to break off all commercial relations with the Central Powers.

For the commercial policy of Sweden, based upon considerations of international law, the entrance into the War of the United States also had specific consequences. For the objections of Sweden to control by belligerents over goods coming from neutrals ceased to apply to American goods.

As soon as there was reason to fear these new difficulties for neutrals, created by the entrance of the United States into the War, and especially to fear new restrictions upon American exports, Sweden, early in May, 1917, before any other neutral Power, sent a delegation to Washington to inform the American authorities as to the situation of Sweden, and to endeavor to bring about import facilities. Negotiations continued during the greatest part of 1917, but proved fruitless. The consequence was that during 1917,—leaving aside the cargoes in American ports which were set free by the agreement with Great Britain, already mentioned—the imports to Sweden from the United States ceased almost completely. About

Christmas 1917, however, the American authorities allowed some minor shipments to be exported to Sweden. This so-called Christmas present consisted of 2,500 tons of coffee, 5,500 tons of mineral oils, and about 100 tons of drugs. In return Sweden allowed some Swedish vessels in the ports of the United States to go to South America in the interests of the United States.

Sweden's Commercial Policy as It Affected Germany.

As has been mentioned, the proclaiming of unrestricted submarine war by the Central Powers brought Swedish trade with Great Britain to a standstill. On representations by Sweden Germany agreed, at the end of March, 1917, that Swedish ships in British ports or waters should pass unmolested through the blockaded area on May 1. But, as, in spite of strong efforts by Sweden, a British license for the ships to clear could not be obtained before that date,—and it was later made May 8,—this German safe-conduct could not be made use of. The German Government having set a new date, July 1, twenty-three ships left British ports, however, and arrived safely in Sweden.

By an amendment to the German Prize Order of July, 1917, notice was given that neutral vessels would be treated like enemy ships, if owned wholly or in part by subjects of an enemy State, or chartered by an enemy shipping firm, or used in the interests of enemy operations. Neutral vessels, making part of a British convoy, were always treated by German warships as enemy ships.

In spite of the deadness of trade during the first and most perilous period after the proclamation of the Central Powers, the losses of the Swedish merchant marine by German submarines were very heavy. During 1917 thirty-five ships in all were sunk, with the loss of sixty-eight lives. Especially painful was the impression made when three ships, vessels set free by the British Government on the basis of the agreement May 8, and largely laden with grain, were torpedoed about May 20. As soon as there was any chance of success Sweden protested against the sinking of these ships and put forward claims for compensation.

The direct exchange of goods between Sweden and Germany by the Baltic—which went on under the ægis of the German navy—continued not unsatisfactorily during 1917, and, considering the partial embargo on trade to the West, became even of relatively

greater importance than before from the point of view of imports. In addition to the necessities imported, "in compensation" from Germany and already mentioned—(coal, potash, salt, drugs, dyes, Glauber's salt, soda, machinery, instruments, iron, etc.)—Sweden, during the second part of 1917, received large quantities of Rumanian lubricating oils, which were of great value because of the serious scarcity of these indispensable commodities. Certain quantities of sugar and potatoes also arrived from Germany during the last months of the year.

Scandinavian Coöperation during the World War.

Dating back to the first period of the War, the coöperation, based upon mutual confidence, had been going on between the three Scandinavian countries. This collaboration was of great value to them in foreign affairs, as well as at home, from the point of view of politics and social psychology; but only to a minor degree did it enter the field of commercial policy. In so far as this was the case, it had principally been in matters of international law, not going much beyond the protests against the above mentioned encroachments of the belligerents. Otherwise in matters of commercial policy there had hardly been any unity in the courses taken by the three countries. By the end of 1915 Denmark had entered upon an agreement with Great Britain, concluded between the leading Danish business organizations and the British Government, imports for Denmark being arranged for by that agreement. In Norway special agreements had been arrived at between the British authorities and competent Norwegian business organizations, in charge of import trade. But, since the attempt at a general commercial agreement with Great Britain had foundered, in the case of imports from overseas, Sweden, on the other hand, had tried to handle every case separately, imports from Great Britain herself being based on the system of compensations.

In consequence of these dissimilarities and of the concessions to belligerents which the three countries had had to make, trade among themselves had decreased rather than increased in the course of the War. The unrestricted submarine war having, in the spring of 1917, faced all three with the menacing prospect of seeing their imports from the West more or less completely cut off, the thought arose that such Scandinavian neighbors ought to be able to com-

pensate one another, at least in part, for the deficient supply from other quarters. It is true that the three countries—Denmark, on account of her intensive agriculture, Norway, because of her fisheries and very large merchant marine, and Sweden, by reason of her highly specialized industries—had, in normal times, turned to the world's markets for imports as well as exports; but, on the other hand, the resources of the three countries, which supplemented one another in several respects, might be exchangeable in an increased degree, to the mutual benefit of all, as their relations with the outer world had been more or less cut off.

The first efforts to intensify inter-Scandinavian trade were made in the spring of 1917, mainly on private initiative, but not without the knowledge of the authorities and tacitly agreed to by them; by the summer of the same year a very considerable increase in trade between Sweden and Denmark, in particular, had taken place. It soon became clear that organized coöperation on the part of the official authorities would be desirable, especially as the goods to be exchanged were mostly prohibited of export and, consequently, stood in need of licenses. On the basis of an agreement made at a meeting of the sovereigns of the three countries at Christiania in November, 1917, official committees were, accordingly, established in each country for the purpose of supervising and facilitating such trade. Through the measures taken by these committees a new system was adopted. As reëxports of imported goods were, as a rule, made impossible because of the guarantees given to belligerent powers, this new Scandinavian exchange was limited to the products of the countries themselves. The principle agreed upon was that the basis should not be any narrow identity of value in the goods themselves, as experience derived from that sort of agreement with the belligerent powers had shown that trade was hampered by such systems of compensation. Instead, this became the leading principle: there should be the greatest mutual confidence, and each country should do its utmost to supply the other two with what they stood in need of, in the firm belief they could expect the same treatment on their part. On these lines the exchange of goods went on during 1918 and continued even after the beginning of 1919.

As an illustration of the importance to Sweden of this trade it may be noted that the total value of foodstuffs imported from Denmark in 1917 amounted to kr. 50,000,000—about $13,000,000—

representing half the total imports of foodstuffs to Sweden during that year—and in 1918 to kr. 97,000,000. These imports consisted principally of the following things: in 1917, 7,000 tons of butter, 6,300 tons of pork, 550 tons of cheese, and 30,000,000 eggs; in 1918, 7,000 tons of grain, 5,000 of butter, 6,000 of meat, 3,000 of sugar, and 75,000,000 eggs, to which there must be added considerable imports of potatoes, and about 47,000 tons of turnips and other root crops. Among Danish exports to Sweden, seed, hides, bones, animal fats, glycerine, and scrap iron may be mentioned. Among Norwegian imports to Sweden the most important was salted herring, amounting to some 54,600 tons during 1918, which met all the requirements of Sweden in this foodstuff. Of great value to Swedish economic life were also some 18,000 tons of nitrate fertilizers. Among other commodities imported from Norway to Sweden may be mentioned 102,000 tons of pyrites in 1917, and 110,000 in 1918.

In exchange Sweden exported to Denmark and Norway large quantities of commodities needed in the industries of both countries. During 1917 and 1918, when the supply of iron from belligerent countries fell to an insignificant percentage of the normal, Sweden exported iron and steel to Denmark to the value of kr. 16,000,000 in 1917, and kr. 42,000,000 in 1918—or in American money $4,300,000 and $11,300,000, respectively, and to Norway the same exports to the value of kr. 32,000,000 and kr. 43,000,000. Among other Swedish exports may be mentioned dressed lumber and woodwork, firewood, pulp, spinning paper, turpentine and wood tar, glassware, and fireproof bricks.

In this way Scandinavian coöperation during the last years of the War also came to include the mutual exchange of goods. The additions thus made to the available stocks of commodities became of great value to the three peoples during the existing shortage. This collaboration was also a practical proof of the fact that the Scandinavian countries are able, during a period of commercial embargo and general scarcity, to do better by mutual assistance than they could if each worked for its own hand, and that Sweden, Norway, and Denmark are, together, in a considerably better position to be self-supporting than when facing the world alone.

CHAPTER VIII

A COMMERCIAL ARRANGEMENT WITH THE ASSOCIATED POWERS

The Change of Government in October, 1917.

A General election to the Lower Chamber took place in September, 1917. The results were favorable to the parties of the Left, and the Swartz Government resigned in October. It was succeeded by a Coalition Government of Liberals and Social Democrats, the chief of the Liberal Party, N. Edén, becoming Prime Minister, and J. Hellner, Minister of Foreign Affairs. The leader of the Social Democrats, Hj. Branting, entered the Government as Minister of Finance, but had to resign in January, 1918, for reasons of health.

In its program the new Government stated its intention of maintaining a strictly impartial policy of neutrality and a commercial policy in harmony therewith, in accordance with the intentions and the clearly expressed mandates of the Swedish people, already many times repeated. The action of the belligerent Powers now made it imperative for Government and people to unite their strength to find some means of lightening their burden and to make it possible to endure the crisis without suffering too profoundly.

Commercially Sweden was in a critical position at this time. Everywhere artificial barriers had been set up and trade had been impeded. Overseas imports had all but come to an end, save for the shipments which had been set free by the partial agreement with Great Britain in the early summer. Imports from Britain had fallen to a minimum, with the exception of coal. Trade with Russia, whither exports had gone in the earlier years of the War to a considerable extent, had now almost disappeared. The access to Dutch ports, through which a considerable part of the German coal imports to Sweden had been shipped, had recently been stopped by the British. Imports from Germany via the Baltic went on, it is true; but in no case could the most indispensable of commodities, grain, be procured in that way. The exchange between the Scandinavian countries, important as it was, was far from being, in itself, sufficient to meet the needs of Sweden. Most pressing was the question of food supply. Even in April, 1917, the ration of flour had had to

be cut down, and new classes of foodstuffs had had to be rationed or regulated by commercial or transport arrangements. An increasing shortage of fodder had given rise to other extensive regulations, and agriculture lacked manures. The new consumption year had begun under extremely unfavorable auspices, as the home grain crops had never been less satisfactory within the memory of man, being, as a matter of fact, below half the normal figure. Industry had shown an enormous adaptability, it is true, and had been able to continue by resorting always more and more to all sorts of substitutes; but it was, none the less, being ever heavily burdened because of the scarcity of raw materials due to the embargo on imports.

Negotiations with the Associated Powers in the Autumn of 1917.

This being the situation, the new Swedish Government decided upon another attempt to reach a commercial agreement with the Associated Powers through which renewed imports of the commodities needed, for food for the people and raw materials for industry, might be secured. At the same time relations with the Central Powers must, of course, be maintained on the basis of Sweden's continued commercial neutrality. At the beginning of December, 1917, a special commission was sent to London for this purpose. And among its members may be mentioned Mr. Marcus Wallenberg, the president of one of the principal Swedish banks, who played a great part in the effort to obtain positive results, both in these negotiations and in those of the preceding year, as the spokesman of the Swedish business world.

Negotiations were immediately opened. In comparison with the same sort of negotiations in the summer of 1915 and the autumn of 1916, the situation had changed in some important respects. At those earlier dates the most effective weapon of Sweden had been her power over the carrying trade to Russia; but, especially after the Bolshevist revolution of November, 1917, this had largely lost its interest in the eyes of the Allies. Other factors had now come to the fore. During 1917 the scarcity of Allied tonnage had been growing steadily worse, both in consequence of losses by submarines, and on account of the ever increasing demand for means of transport due to the entrance of the United States into the War. What was particularly desired by the Associated Powers was, therefore, the greatest possible quantity of tonnage. In spite of the protests of Sweden,

the British and French governments had, during the autumn of 1917, requisitioned a number of Swedish vessels in British and French ports. If an agreement could not be reached there was some danger that other vessels, also in the power of the Allies, might be treated in the same way. A second important point was, of course, the wish of the Associated Powers to curtail Swedish exports to the Central Powers. In this case, too, their demands had increased very considerably as compared with those of earlier negotiations; the claim was made that Sweden should absolutely block, or in any case limit, even exports in which no imported raw materials entered. This referred in particular to iron ore, cellulose, and paper. As a third point may be mentioned the desire of the Associated Powers, for financial reasons, to be given long-term credits.

As a first result of the negotiations a preliminary agreement was reached on March 1, 1918, the so-called "*modus vivendi* arrangement." Through it Sweden secured certain imports of great value, in all about 75,000 tons, and comprising 26,000 tons of maize, 3,000 tons of oil-cake, 25,000 of raw phosphate, 15,000 of mineral oils, and 25,000 bales of coffee. In return the Swedish Government put 100,000 tons of Swedish shipping, then in Allied ports, at the disposal of the Allies for time-chartering during the next three months in European waters.

About the same time the delegates had delivered drafts to their respective Governments of a "General Commercial and Tonnage Agreement." The State Commerce Commission of Sweden in a memorandum of March 21, 1918, summed up its views of this proposal as follows. As the draft agreement—by which there were to be secured to Sweden imports that were indispensable both for the feeding of the people and the continuance of industry—meant advantages of very great value, the Commission advised its acceptance. An agreement with the Associated Powers was the more desirable, as Sweden, under normal conditions, had to draw its imports mainly from the Powers which belonged to that group, and a negative result of the negotiations must be, therefore, expected to lead to harmful commercial consequences to the country, not only for the moment but also for a long time to come. On the other hand, an agreement with the Allies must not be brought about at the price of such a change in Sweden's relations with their opponents as would mean a commercial rupture. Because of the geographical position of

Sweden, and especially considering recent occurrences and the increased power of Germany in the Baltic, such a crisis must be prevented. The Commission took it for granted that the policy of neutrality was to be maintained in the future as in years past. An agreement of the scope now contemplated—by which, for example, a large amount of tonnage was to be put into the service of the Associated Powers, and exports from Sweden to the Central Powers of important goods were to be curtailed, ought, therefore, not to be entered into before it had been made clear how it would be regarded by the other side.

Certain Agreements with Germany in the Spring of 1918.

It had not remained a secret to the Swedish Government that its attempt to reach an agreement with the Associated Powers had aroused suspicion on the part of Germany. Above all, the efforts of the former to secure the use of Swedish tonnage were watched most narrowly as that would help to make good the shortage caused by the submarine war; the same was the case with the efforts to restrict Swedish exports to the Central Powers, iron ore being of the first importance to Germany. On the other hand, for Sweden it was particularly important to secure coal from Germany. The exchange of commodities between the two countries had continued to be based upon the principles of compensation. According to successive agreements, coal and other German commodities had, at this stage, been bartered for iron ore, cellulose, spinning paper, and other purely Swedish products. As these exports would have to be restricted, if the proposed agreement with the Associated Powers was to be made, it became necessary to find an arrangement which allowed for compensation within the lines drawn up in this agreement.

Negotiations with Germany, consequently, had to be initiated before they could reach any final result with the other group of belligerents; and they were taken up in Berlin in March, 1918, by a special Swedish commission. They developed favorably and led, in April, to a new coal agreement, covering the months from April to September, inclusive, of that year. By this agreement the German Government promised to permit the export of at least 150,000 tons of coal, coke, and briquettes, during each of these months. The compensation was, in the first place, to consist of iron ore and, also of cellulose, spinning paper, and other Swedish products. Credits

should likewise be extended by Sweden, as had been the case in earlier agreements, on the basis of the amount of coal delivered. If Swedish exports of iron ore, cellulose, and spinning paper fell below the quantities agreed upon, there was to be a corresponding decrease in German coal exports. If exports of cellulose and paper to Germany stopped altogether, Germany was, in any case, to deliver 75,000 tons of coal per month, in exchange for the iron ore alone. No new coal agreement between the two countries was made after this, and the stipulations as here given held good to the end of the War.

It had also become necessary, however, to reach an agreement with Germany covering Sweden's trade with the West. During 1917 German warships in the Baltic and along the coasts of Sweden had, more and more, been making a practice of ordering Swedish ships in international waters to call at a German port for examination. This could be avoided, however, if the ship carried a German letter of safe-conduct—a *Geleitschein*. Such a safe-conduct, issued by a German authority in the port of departure, after an examination of the ship's papers, gave the vessel a free passage. But the use of these letters had not, at the beginning, been authorized by the Swedish Government, and been wholly left to the discretion of the trade.

The risks to Swedish shipping greatly increased after Germany, in April, 1918, made new prize-law regulations. According to them, a vessel under a neutral flag was to be held to be engaged in enemy operations, and, consequently, was an enemy vessel, if the State, the flag of which the vessel was entitled to carry, had made an agreement with a State at war with Germany, calling for the delivery of tonnage, or if the principal part of the employed tonnage of the neutral State was chartered by the enemy. These stipulations did not apply, however, when circumstances argued against the presumption in question, which probably meant when a German safe-conduct was carried. As Sweden was then contemplating an agreement with the Allies concerning Swedish tonnage, and as Sweden's western trade must be expected to increase as a result of such an agreement, the necessity of having these questions arranged for satisfactorily, so far as Germany was concerned, was apparent.

Consequently, the matter was taken up in the negotiations in Berlin during March and April, 1918; and an agreement was reached under which the Swedish Government accepted the system of safe-

conduct. Such letters might be issued both for vessels going to neutral States, via the North Sea and the Baltic, and for trade abroad. In the latter case Sweden was even permitted to trade with countries at war with Germany, on the condition that such cargoes were altogether reserved for the needs of Sweden herself. The use of safe-conducts was not made obligatory; but vessels which did not carry them would have no ground for objecting to being taken to a German port for examination, nor could they ask for compensation for such treatment. But in no case would safe-conducts apply within the blockaded area, though a vessel which had clearly entered it by mistake or under *force majeure* would be shown due consideration.

During the following period Swedish shipping, to a great extent, made use of safe-conducts. Shipping on the North Sea and the Baltic and, without exception, vessels carrying goods from overseas markets to Sweden under the agreement with the Associated Powers, —now to be studied in detail—all alike provided themselves with such letters.

The Commercial and Tonnage Agreement with the Associated Powers, of May 29, 1918.

The Agreement signed on May 29, 1918, was the result of negotiations which had been going on in London at the same time as those in Berlin; and it was arranged between Sweden, on the one side, and Great Britain, France, and Italy, on the other. The United States also became a part to it. In several respects it followed the lines of the proposal which had grown out of the negotiations of 1916-1917; but in some points it went considerably beyond these.

From a Swedish point of view the value of the Agreement was, above all, in the imports it provided. Like the draft of 1917 this part of the Agreement was based upon a consistent system of rationing. The Allies promised to help Sweden to procure imports to very large amounts on the basis of the actual needs of Sweden, and this was to apply to a great number of commodities which had been put upon a rationing list annexed to the Agreement. In this list were comprised all the more important things that Sweden desired to import from the West, and most prominent in it were the following commodities, in quantities per annum as follows: cereals, 250,000 tons; fodder, 300,000 tons (for 15 months); sugar and molasses, 8,000; rice, 12,000; lubricating oils, fuel oils, and other mineral oils,

133,000; raw cotton and cotton goods, 18,000; wool and woolen goods, 6,200; hides and leather, 7,200; tanning materials, 8,000; copper and copper alloys, 8,000; lead, 2,000; tin, 700; tin and lead-plate, 5,000; saltpeter, 35,000; raw phosphates, 80,000; sulphur, 10,000; and in addition—the annual quantities also being stipulated in these cases—coffee, cocoa, tea, fresh and dried fruit, vegetable oils, spices, spirits and wine, tobacco, rubber and rubber goods, hemp, jute, silk, soap, varnish, cork, manganese, chrome and vanadium iron, aluminium, nickel, mercury, asbestos, borax, graphite and graphite crucibles, phosphorus, resin, raw soda, starch, etc. With regard to coal the British Government promised to give licenses up to a monthly total of 150,000 tons. Like the draft of 1917, the Agreement of 1918 prescribed, in the matter of supervision, the importing of the commodities on the rationing lists by particular import associations. Upon these associations, made up of business men representing their respective fields, was to fall the duty of giving guarantees that there would be no reëxportation of the imported commodities, or of the products, by-products and waste, derived therefrom. And all this was to be approved by the State Commerce Commission and, consequently, binding under the Swedish Law Governing Commerce in War-Time. In the draft agreement of 1917 the names of ultimate purchasers had not been demanded by the British authorities, who were, consequently, unable to prevent such imports reaching firms on the black list or otherwise objectionable. But this position could not be allowed to stand in the new Agreement. On the contrary, it was stipulated in it that the person or firm for which the shipment was, as a matter of fact, intended should be given by name both in the guarantee issued by the import association, and also in the bill of lading. Import associations were allowed to deliver the imported goods only to the owners so denominated, and had to demand a guarantee against reëxport before the commodity was delivered. If a commodity on the rationing list was consigned to the Swedish Government or to any of its agencies, this was to be considered as a guarantee that the article had been purchased by the Government and reserved for its use; and in such cases particular guarantees were not demanded. A special so-called "free list" was to enumerate goods which might be imported without guarantees; but the articles on this list were of small importance.

As for Swedish exports, severe restrictions were embodied in the

Agreement. As in the draft of 1917 the Government was efficiently to prohibit and prevent the export to the Central Powers of all rationed goods and their products, by-products, and waste materials. In certain cases, the fact that an inconsiderable amount of copper, brass, tin, aluminium, rubber, or resin, was contained in an industrial product was not to constitute a barrier against export, however. It was also to be admissible to export to the Central Powers—within the limits of very restricted total amounts—copper, brass, tin, lead, nickel, and rubber, in return for a corresponding amount of the same staples in the form of manufactured products imported from the said Central Powers.

Furthermore, restrictions were put upon Swedish exports to Germany and her Allies of purely Swedish products. An efficient export prohibition was to cover a great number of so-called *articles similaires*, i.e., Swedish products similar to those contained in the rationing list. Among these may be mentioned every sort of foodstuffs, with the exception of cranberries; every sort of hides, leather and skins, leather goods and tanning materials, wool and woolen goods, textile goods made of paper, sulphuric acid, nitric acid, acid of chloric-hydrogen, sulphates of copper and nickel, all sorts of ores, with the exception of iron ore—as to which special stipulations were made—and all metals, including in general, all steel-containing alloys, excepting steel containing one or less than one per cent of manganese, and pig iron containing Swedish manganese. With regard to Swedish commodities used in compensation trade with Germany, limited exports were permitted. This was generally the case, for example, in the matter of iron and steel, silicon iron and silicon manganese iron, wood pitch, wood tar, wood tar oil and resin oil, acetic acid, acetates, and carbide of calcium.

With regard to iron ore, the Swedish Government promised that in its case exports to the Central Powers should not exceed 3,500,000 tons annually, to be distributed over different quarters of the year, as in the case of 1917. For purposes of comparison it may be mentioned that iron ore exports to the Central Powers during the years 1913-1917 had amounted to 5,000,000, 3,700,000, 5,100,000, 4,300,000, and 4,900,000 tons, respectively. As a compensation for this decreased export to Germany the Associated Powers promised to take Swedish iron ore to the extent of not less than 2,000,000 or possibly 2,500,000 tons per annum.

In the case of sulphate and sulphite pulp, and paper and paper products, exports to the Central Powers were not to exceed the quantities stipulated and based upon those of the previous year, viz., sulphite pulp, 89,000 tons, sulphate pulp, 88,000, and paper, 59,000, such exports being distributed by quarters in the same ratio as in the previous year; and in so far as they exceeded the quantities exported in 1914—(or, for sulphite pulp, 60,000 tons, for sulphate pulp, 67,000 tons, and for paper, 27,000 tons)—corresponding reductions were to be made in the stipulated quantities of raw cotton, wool, and other textile materials.

To release for exportation to Holland, Denmark, or Norway, goods which must in no case, or only to a limited extent, be exported to Germany or her Allies, certain formalities were to be observed to prevent reëxport to the Central Powers. In the case of some things all exports to the above neutral States were also prohibited. Exports to Russia, Finland, and Roumania were subjected to special regulations.

The Agreement abolished the system of compensation which had been in force between Sweden and Great Britain, under which British export licenses to Sweden had been exchanged for corresponding Swedish export licenses, as also transit licenses for Russia. As to transit, the Swedish Government promised to permit, without compensation, transit to and from Russia and Finland for every kind of goods, with the exception of arms, ammunition, and certain other things, as enumerated, up to weekly maximums of 3,000 tons in the winter and 6,000 in the summer, if so demanded by the Associated Powers. If, however, on account of barriers to import created by military action on the part of the Allies, a shortage should develop in Sweden in the case of some particular commodity needed for home consumption, the Swedish Government should be free to prevent this commodity from leaving the country until the disappearance of such a shortage.

As has been mentioned, the foremost desideratum of the Allies—besides that of limiting exports to the Central Powers—had been to secure the greatest possible tonnage. According to the "Tonnage Agreement" annexed to the general Commercial Agreement, the Associated Powers acquired, during the period of the Agreement, the right to charter Swedish vessels up to a total tonnage of 400,000, half of it to be used within and half of it outside of the German

blockaded area. As the total merchant tonnage of Sweden amounted to a little above 1,000,000, a large part of it had thus been put at the disposal of the Allies. But the 400,000 tons also covered the 100,000 already turned over under the *modus vivendi* arrangement. Of the remainder, the tonnage still at the disposal of Sweden, ships of a capacity of at least 100,000 were to be put into the Swedish-British French trade. And bunker coal was to be furnished under only very restricted conditions.

The Swedish Government promised, further, to establish a monthly credit, through a group of Swedish banks, of kr. 6,250,000 ($1,676,000), to be shared by Great Britain, France, and Italy. This credit was to be used exclusively for the purchase of Swedish goods. Stipulations were also made as to the remitting, during a certain period, of half the amounts due in payment for such iron ore, paper, and pulp, as might be purchased in Sweden.

It has been stated above that Sweden had protested rigorously against the so-called "black lists." As, according to the Agreement, the names of the final consignees were now to be made known to the Allied authorities, it had become impossible to prevent the use of these lists in future. During the last phase of the War the "Statutory List" enumerated 270 Swedish firms, added to which there would seem to have been not less than 1,500 more on the secret lists. It was provided in the Agreement, however, that questions arising from the black lists were to be made the subject of confidential conversations between the representatives of the Swedish and British governments. The intention was that both lists, the "statutory" as well as the secret, should be revised from time to time, and the names of persons, firms, and companies in a position to provide satisfactory explanations were to be struck off.

Even at an early stage of the War the publishing of Sweden's official foreign trade statistics had been discontinued; and, thereby, the ability of the belligerents to make current estimates of the volume of Swedish trade had been greatly hampered. In the Agreement Sweden now promised to furnish the Associated Governments with the monthly figures for imports of rationed goods—ship by ship—and also figures for exports of goods in the case of such information being desired.

The Allied Governments, finally, still reserved their right to visit, search, and, if necessary, detain Swedish vessels, and to put before

the Prize Court every cargo with regard to which they were in possession of evidence entitling them so to act. If the case for the prosecution failed, the owner should, however, have the right to present a claim for compensation before the Prize Court.

The Agreement of May 29, 1918, was to remain in force to the end of the War. Both parties were to be entitled to give notice at any time after December 1, 1918; in such case the Agreement was to terminate at the end of two months.

The Application of the Agreement.

The Commercial and Tonnage Agreement with the Associated Powers meant for Sweden an important settlement, one with far-reaching consequences for the remainder of the War. Through it, for the first time since the outbreak of war, Sweden had arrived at a general arrangement covering her relations to the Western Powers; only then had there been brought to an end that insecurity which had resulted from negotiations based on one case after another. Above all there had dawned the possibility, so long desired, of renewed imports from the West and relief from the most pressing need. For these reasons the Agreement was generally received with satisfaction.

At the same time somewhat hostile criticism made itself heard in some quarters. The Agreement had necessitated important concessions and in several ways had restricted the freedom of action of the country that had had no counterpart in the years before, when there were no general arrangements. In particular, the limit put on exports to the Central Powers met with little favor in certain quarters, as it must lead to a falling off in trade with these Powers; the same held good with regard to the promise of delivering tonnage to the Allies, as the country would, thereby, deprive itself of an extremely valuable asset, and risk those vessels which would have to go into service within the blockaded area.

Immediately upon the signing of the Agreement measures were taken to put it into force.

A committee of Swedish shipowners, appointed to advise the Government on questions of navigation, was empowered to supply the vessels to be time-chartered by the Allies, and to make the necessary agreements with their fellow shipowners. In accordance with their arrangements, licenses were given for the tonnage, amounting to 400,000 tons, as had been promised.

In the course of the War one Swedish export prohibition after another had been issued. Considering the new curtailment of exports stipulated in the Agreement it now became necessary, however, to establish a control far more detailed than anything before it. The great majority of the commodities which had remained free were now made subject to prohibition, the control being executed by the State Commerce Commission. For iron ore no prohibition was issued, the necessary control being organized in another way.

It fell to the State Commerce Commission to organize the called-for import measures. Above all, the Commission had to arrange for export and shipping licenses in the various countries from which the imports would come. For this purpose the Commission put itself into direct relation with an agency that served all the Allies, and that had been established in Stockholm under the name of the *Comité Interallié du Commerce en Suède*. To care for Swedish import interests in the proper centers, in the summer of 1918, the Commission also opened offices in London and Washington, by which direct relations were established with the competent authorities in Britain and the United States.

To take over the arranged-for imports, import associations to the number of eighteen were organized, as provided for in the Agreement. These associations must receive the applications of importers and the cargoes were consigned to them, thence to be forwarded to the ultimate consignees. For coal, gasoline, kerosene, and fuel oil no import associations were created, applications for permits to import them being sent to the State Commerce Commission direct. The importing of grains, other foodstuffs, fodder, and drugs was in the hands of State authorities who, consequently, acted as import organizations.

The Swedish tonnage available for overseas navigation proved insufficient to bring home all the quantity quotas covered in the Agreement. Measures had, therefore, to be taken to make the best possible use of the available tonnage. With this in view, a law of June 20, 1918, forbade all sailings of Swedish ships between Swedish and foreign ports without special licenses; and in this way all foreign trade being carried on in Swedish ships abroad came under the control of the State. In that connection a so-called Import Regulation Board was established and annexed to the State Commerce Commission; this new Board had to say what commodities

were first to be brought to Sweden, and what the later order was to be. The first places were given the necessary foodstuffs, fodder, and fertilizers, and the most important basic materials for industry, such as raw cotton, wool, hides, tannin supplies, metals, and chemicals.

The lengthy preparations necessary for the execution of the Agreement, all the formalities required by the system of licenses, and the fact that at the time of the Agreement the Swedish merchant marine was, in part, detained in European ports, necessarily delayed the renewal of oversea sailings. The first vessel carrying goods —goods which had been freed for import under the Agreement— arrived in a Swedish port at the end of August, 1918. Before then, however, some cargoes had arrived as arranged for in the *modus vivendi* agreement.

The total quantities of rationed commodities which entered Swedish ports during 1918 as a result of both agreements amounted, roughly, from April to June, inclusive, to 19,200 tons; in July to 11,400 tons; in August to 43,500 tons; in September to 19,200 tons; in October to 24,500 tons; in November to 20,200 tons; and in December to 81,500 tons. Among the most important commodities—giving totals only in round numbers—may be mentioned grain and fodder, 132,800 tons; coal and coke (June-December), 651,000; saltpeter, 16,400; raw phosphates, 38,400; flax seed and rape seed, 18,000; raw cotton, 7,400; wool, 200; twine, 1,900; tannin, 2,300; hides and leather, 1,900; copper, 3,000; lead, 240; tin, 300; rice, 5,400; coffee, 10,700; sugar and molasses, 5,500; cocoa and chocolate, 840; margarine oils, 2,500; lubricating oils, 2,700; and gasoline, kerosene, and fuel oils, 32,600.

The losses of the Swedish merchant marine in ships chartered by the Associated Powers, under the two Agreements, proved to be smaller than had been feared. Eight vessels of a total tonnage of about 19,000 were sunk up to the end of 1918, of which two, totalling 3,350 tons, had been chartered under the first Agreement.

The Immediate Effects of the Armistice.

The dissolution of the Central Powers *bloc*, the defeat of Germany, and the Armistice Treaty of November 11, 1918, likewise and fundamentally changed the situation as seen by the neutral Powers.

Following the armistice the British Government issued new shipping regulations. The system of convoys was abolished, and ships were allowed to freely take such routes as were declared to be safe. Compulsory visit and search were retained for the time being; but the examination, as a rule, once more took place in Great Britain, though the choice of port was, to a certain extent, left to the ship in question.

In the Armistice Treaty it had been stipulated that Germany was, by a formal notification, to set the neutral Powers free from the fetters put by Germany upon their trade and navigation during the War. In accordance with this the German Government, on November 20, 1918, officially gave notice to the Swedish Government that Germany's commercial war at sea was at an end; that in the future Germany would put no obstacles in the way of trade and navigation. The safe-conduct system was abolished. All agreements, either between the two governments or of other sorts, that laid restrictions either upon ships or commodities were, henceforth, null and void. The same applied to all restrictions upon commercial and shipping relations between Sweden and the Allied Powers, irrespective of their having been made either by the German Government or by private German firms, or whether or not they had been connected with particular concessions.

The blockade of Germany by the Allied Powers, however, was maintained, irrespective of the Armistice Treaty, and now was also extended to the Baltic. Owing to this new and so-called "Baltic blockade," the armistice period meant, if anything, greater obstacles to trade in the Baltic—trade which had been able to go on fairly untrammeled hitherto—and greater obstacles to trade with Germany. German vessels disappeared altogether, and Swedish ships had to submit to Allied conditions. Under them trade between Germany and Sweden was made dependent upon licenses in the form of safe-conducts for every voyage, issued by the *Comité Interallié du Commerce en Suède* in Stockholm. As to exports from Sweden, shipments were to follow the rules laid down in the Agreement between Sweden and the Associated Powers; and as for exchange trade, cargoes were limited to certain particular raw materials, that is, to coal and coke, potash, salt, paving stone, sand, clay, seed, etc., exports of manufactured goods being for the time prohibited. And though conditions were made somewhat easier, the Agreement of May 29, 1918,

with the Associated Powers remained in force all through the armistice period.

Final Liquidation.

The blockade of Germany came to an end with the coming into force of the Peace Treaty. Shortly afterward, on July 12, 1919, the Commercial and Tonnage Agreement between Sweden and the Associated Powers was declared void by special arrangement of the contracting parties.

After the Declaration of Peace Swedish war-time institutions and other arrangements in the field of commercial policy were speedily abolished. On April 1, 1919, the Import Regulation Board, the activities of which were now unnecessary since the available amount of tonnage had increased at the beginning of the year, had been dissolved; and, the rationing system of the Commercial Agreement having been given up at the end of the same month, steps were instantly taken to dissolve the import associations. The State Insurance Commission issued out no new insurance policies after July 1. The State Commerce Commission, the London and Washington offices of which had finished their work by about September 1, 1919, was dissolved on October 1. The Law Governing Commerce in War-Time was repealed, the special Tonnage Laws being retained until further notice, however, on account of the continuing scarcity of tonnage.

As soon as the business situation allowed measures were taken to abolish the enormous number of export prohibitions. Thus, many commodities were freed for export at the beginning of April, 1919, and others were freed in a short time. By about the middle of the year most of such prohibitions had been repealed, and those remaining did not constitute any serious barriers to trade. In Sweden the release of exports had come about more speedily than in most other countries.

CHAPTER IX

RETROSPECT

The struggle to uphold international law had been a distinctive feature of Swedish commercial policy during the first years of the War; it had forced other, and perhaps more obvious material interests into the background and had given the policy its characteristic features. This tendency, which constituted the strength as well as the weakness of Swedish policy, led to an unwillingness to regulate foreign trade, and especially exports, by restrictive measures undertaken by the State. Only if considered necessary in order to protect the resources of the country, in the case of commodities which could, only with difficulty, be replaced, was the Government willing to issue export prohibitions. The belligerents, according to international law, had the right to prevent the enemy receiving supplies of commodities of a contraband character; but a neutral country was not considered obliged to assist in this, or to exercise any control either over transit trade or over the exports of the country itself. The result of this attitude was that a large transit trade in oversea goods came to be carried on over Swedish territory, in the first period of the War, especially, and that Swedish exports, owing to price and transport conditions, found new channels that favored the Central Powers. Only when the supplies of Sweden, herself, began to suffer through this unrestricted freedom to export did the Swedish Government find reason for intervening.

Another result of this policy dominated by the idea of international law came strangely to light when it was found to be easier to organize practical methods of trading with the belligerent Powers than to obtain goods from neutral and oversea markets; and it was in the latter case that the clash based on principle took its most pointed form. As part and parcel of the blockade of the Central Powers the Allies had decided not only to keep Germany from receiving oversea goods via her neutral neighbors, but also to limit the supplies of those neutrals to what was considered necessary for their own wants. Neither of these objects could be reached within the limits of international law as interpreted by Sweden. The Swedish Government took its stand upon the right of a neutral country to

liberty of trade and imports, within these legal limits. The Government sanctioned guarantees against reëxportation of imported goods of neutral origin, it is true, but only in the case of imports themselves, and not of products made therefrom. The Government further opposed a rationing of imports and was unwilling to control the distribution and use of import goods after their arrival in the country. Nor did it wish to give compensation for goods imported from a neutral country.

At the beginning of 1916 no agreement for a solution of all these controversies had been possible between Sweden and Great Britain. The Swedish Government preferred a situation unregulated by treaty, and to settle each case upon its own merits, rather than to bind itself to something contrary to its principles of international law. Following her blockade policy Great Britain, under these circumstances, herself arranged a compulsory rationing of oversea supplies for Sweden, the exchange between Sweden and Great Britain still continuing on the basis of compensation. At the same time the British Government made constantly increasing efforts to control Sweden's trade by the help of all sorts of measures, such as guarantees against reëxportation, bunker coal contracts, black lists, etc., in order, in these ways, to obtain guarantees that there would be no reëxporting to the Central Powers, and obtain them without the help of the Government of Sweden.

To protect itself from this increasing British control and the same tendencies on the part of Germany, and in order to counteract these foreign influences upon the business life of the country which were creeping in in different ways, in the spring of 1916, the Swedish Government passed new legislation, by which the contracts made by private persons with foreign Powers were put under the control of the Swedish authorities, and information assisting foreign supervision was prohibited under legal penalties. In this way the Government forged a strong tool for a still greater concentration of the commercial policy of the country into its own hands. This object was reached at least in part; but the new law did not help to make easier the obtaining of imports from the West, which had already been dwindling. As a matter of fact supplies continued to be controlled by the blockade policy of Great Britain, and this became increasingly severe, as the rigor of the whole war situation increased. In the summer of 1916 the crumbling of international law,

as interpreted by Sweden, had reached such a point that the Declaration of London was formally deprived of force. The difference between absolute and conditional contraband had disappeared, and practically all commodities of any importance to the world's commerce had been declared contraband by the belligerents. But in spite of the increased difficulties and the ever darkening prospects, the Swedish Government remained firm upon the principles of international law.

This firm insistence by Sweden upon the legal point of view may have acted, it is true, as a brake upon the dissolving system of international law; and if the War had ended earlier than it did, it is possible that this struggle of the Swedish Government might have met with more enduring success. As matters developed, however, in the end it became impossible to hold back the trend of actuality. The longer the War lasted and the more drastic the commercial methods of the belligerents became, the stronger was the pressure, and the more circumscribed the standing ground for an independent policy on the basis of international law. At last the point was reached when the position had to be given up.

The strongest measure of pressure was the increasing scarcity of goods. The world's shortage of different commodities was ever on the increase, as a consequence of the destruction wrought by the War and the growing need for such commodities for military operations. To this must be added the measures of the belligerents, the British commercial blockade in the first place, by which import difficulties were artificially increased. In the autumn of 1916 all this became one degree worse, as the British Government, at that time, became more rigorous in its restrictions upon imports from the British Isles as well as from overseas; especially alarming was the fact that imports of cereals were now, for the first time, subjected to restriction. In spite of its scruples, due to the principles upon which it had taken its stand, the Swedish Government, in consequence, found it necessary to make a new attempt at a general commercial agreement with the Western Powers and sent negotiators to London for this purpose.

In the spring of 1917 the turning point came. The Central Powers at that time introduced unrestricted submarine war; the Allies took the most comprehensive measures against neutral tonnage, refusing it permission to clear from Allied ports; and the United

States entered the War as an active partner. The situation was brought to a head as never before.

As for Sweden there was this to be added: at this same time the Government which had held the reins since the outbreak of war resigned. The Swedish people had, from the first, unanimously endorsed the neutrality proclaimed by the Government, and upon this point no dissension had arisen. But the commercial policy of the Government of Mr. Hammarskjöld, especially its having taken its stand upon a formal upholding of international law, had early created antagonism; and the opposition which was not less powerfully directed against certain measures of the Government in the field of internal affairs, had been uninterruptedly growing in force. This was why the Government tendered its resignation in March, 1917.

After the fall of the Hammarskjöld Ministry commercial policy on the lines of international law was put aside. This was the more natural as there was hardly any room left for a policy of this spirit in the then ruinous state of international law, following the latest developments in naval war. The problem of supplies of goods, and the necessity of securing imports, almost at any price, took first place, in the case of Sweden, as had already been the case with the other neutral States; and the new Swartz-Lindman Government immediately directed its efforts toward reaching an agreement that would still maintain the neutrality of the country but without allowing it to be hampered by considerations of form. There was hope that in this way the paralyzed trade with the West and the halted imports might be revived again. The negotiations with Great Britain already initiated by the previous Government, were now taken up again and pushed on with a will.

The earlier controversies founded on difference of principle no longer stood in the way of agreement. True, no general commercial settlement was reached even at this time; but in May, 1917, a partial agreement with Great Britain was made by which it became possible to secure imports of cereals in quantity sufficient to meet the needs of the country up to the arrival of the new crop upon the market; also imports of certain quantities of other goods were secured. About the same time sailings to Great Britain could be renewed; and as a further means of diminishing the shortage, an increased exchange of goods with the other Scandinavian countries was arranged.

The relief created by this agreement was only temporary, however. The agreement only covered some particular shipments, the question of the future supplies having been left open. During the following months imports from Great Britain steadily diminished in a consequence of the increasing shortage at home; the attempt to reach a commercial agreement with the United States failed; and the additions gained by the new inter-Scandinavian trade and by commerce with Germany—the latter being carried on on the basis of compensation—proved insufficient to guarantee, even approximately, adequate supplies. The question of cereals was always the most pressing, especially as the home crop of 1917 had been exceptionally bad, but the situation was also a threatening one in the case of many of the industries of the country, for their future prospect was one of a more or less complete lack of raw materials and fuel.

When, in the autumn of 1917, the Edén-Hellner Government of the Left came into power, the question of supplies of goods, consequently, remained the vital point in commercial policy. A real improvement could hardly take place without an agreement with the Associated Powers by which imports from the West might be brought in uninterruptedly. The new Government made it one of its principal objects to reach such an agreement if that was at all possible.

The increased pressure of the general situation put great difficulties in the way of arriving at such a result without endangering commercial relations to the South. The old international law upon which neutrals had taken their stand had crumbled to pieces; its principles could no more be preached with any success; and Sweden's best weapon in earlier negotiations with the Western Powers, i.e., control over transit to Russia, had lost its edge. However, after lengthy *pourparlers* a proposal for a commercial and tonnage agreement between Sweden and the Associated Powers was put forward in March, 1918. As the proposed agreement would, in several respects, limit Sweden's liberty of action in dealing with the Central Powers, the Government entered upon negotiations with Germany to make sure that commercial relations to the South would be maintained even after the treaty with the Western Powers had been signed. These negotiations having been brought to a successful issue, on May 29 the agreement with the Associated Powers was signed. The agree-

ment with Germany gave sufficient guarantee that Swedish trade with the West would not be hampered by German naval forces.

The agreement of May 29 meant that, for the first time, a general arrangement between Sweden and the Allies had been arrived at; and it brought to Sweden large quantities of goods of different sorts of the greatest importance to the economic life of the country. Here, too, the system of compensation was discontinued as the basis of Swedish-British exchanges of goods.

But the advantages of the agreement had had to be bought at the price of extensive concessions. The imports of Sweden were rationed; her trade with the Central Powers was severely curtailed, and the Swedish Government had to guarantee a control in detail of exports to the South. Practically all exports of goods imported from the West, and of goods into which such imported commodities entered to any extent, were prohibited; and even Swedish exports of purely home products, like iron ore, pulp, and paper, were put under strict limitations. In addition, Sweden had to give up an important part of her tonnage to the Allies, and promise them large credits. Even her trade with neutral countries was subjected to severe restrictions and, to a degree, Sweden guaranteed to furnish such trade statistics as would aid in the control of her commerce.

The agreement with the Associated Powers remained the principal basis of Swedish foreign trade to the end of the War. The necessary preparations having been made, imports from the West, long discontinued, could, toward the middle of 1918, begin again; and the most pressing scarcity of goods came to an end. At the same time trade with Germany continued, though to a diminished extent.

The World War ended without Sweden's having been drawn into it. The hard struggle of the Swedish Government for pre-war principles of international law had not met with success; like the rest of the neutral states Sweden had had to reshape her commercial defense according to the changes and vicissitudes created by the measures of the belligerents. But the aim of Swedish commercial policy, the upholding of neutrality, had been maintained to the end; and if the country had not been spared the manifold hardships which the War had showered even upon neutrals, it had at least been able to escape the boundless disaster which would have resulted from an active participation in the War.

PART III

MONETARY HISTORY, 1914–1925, IN ITS RELATIONS TO FOREIGN TRADE AND SHIPPING

MONETARY HISTORY, FROM 1914 TO 1925, IN ITS RELATIONS TO FOREIGN TRADE AND SHIPPING

CHAPTER I

THE PRE-WAR MONETARY SYSTEM

The Gold Standard.

By saying that the Gold Standard had been introduced into Sweden in 1873, the essential character of the pre-war Swedish monetary system is almost sufficiently indicated. The monetary unit, the *krona*, was made identical with 1/2480 of one kilogram of pure gold. From that followed a parity which gave foreign currencies the following values in Swedish money: the pound sterling, kr. 18.16; 100 reichsmarks, 88.89; 100 French (etc.) francs, 72.00; the dollar, 3.73, etc.[1] Foreign exchanges could fluctuate only within narrow limits; and though the relations of purchasing power between the different units were not as strongly fixed as the exchange, these relations were, however, very broadly fixed by the common standard of gold.

As to the exchanges, the full consequence of the Gold Standard was to make specie points the higher and the lower limits of the fluctuations. The location of these points was open to some doubt, it is true; at the beginning of the nineties the export specie point for sterling was put at kr. 19.27 for £1; for reichsmarks at 89.29; rather lower figures (e.g., 19.23 and 89.22, respectively) being given at later dates. Import specie point was seldom under discussion, but must have been about the same distance from par.

Passing to actual quotations of the Riksbank, it will be found, however, that the exchanges were at times more against Sweden than export specie point, even upon the highest computation of its figure. For sterling the highest figures quoted were, e.g., in 1885, 18.30; in 1899 and 1900, 18.32; in 1907, the year of the great

[1] More exact parities were £1 = 18.1595; 100 reichsmarks = 88.8889 (100 Swedish kronor = 112.50 reichsmarks); 100 francs = 72.00 (100 Swedish kronor = 138.8889 francs); $1 = 3.7314 (1 Swedish krona = 26.79 cents).

crisis, as much as 18.39; and in 1908, 18.35; with corresponding amounts for francs; reichsmarks were standing a little lower, but even they were too high. These official figures were also said to be more favorable to Sweden than the actual market rates. Sometimes even the most favorable quotation of the year for all these currencies was against Sweden; and the annual average for sterling and francs showed Swedish currency at a discount in every year after 1897. It goes without saying that import specie point was without any significance under such conditions.

The explanation of this situation, which appears rather surprising to English eyes, was as follows. The Swedish Riksbank, like that of the Central Banks in some of the continental countries, prevented the Gold Standard from coming into full force by making difficulties when gold was required for export; and, in later years, private banks assisted the Riksbank in this policy. It meant no more than this, that the real parity of Swedish currency became depressed below the legal one; this depreciation first came to light as against sterling, because pre-war British currency always adhered strictly to gold. This does not mean, however, that the policy of the Riksbank increased its freedom of action to any appreciable extent; for a definite severance of the connection with the Gold Standard was never so much as thought of. If there had been a danger of a development in that direction, the Bank would have had to take exactly the same measures which would have been necessary in order to keep up the legal parity. The monetary system, therefore, remained about the same as if these aberrations had never taken place.

Actuated by the fear of a renewal of the monetary disturbances of many years of inconvertible paper money, which had often played havoc with the economic life of Sweden in the seventeenth, eighteenth, and earlier nineteenth centuries, Swedish legislators had tried to rivet the Gold Standard more firmly in law than has, perhaps, been the case in any other country. The Gold Standard was simply made part of Swedish Constitutional Law, and could, consequently, not be altered except by the decision of two Parliaments in succession, with a general election between. Based upon this enactment, a special law of 1897 laid down the rule that if the Riksbank, "under any pretext whatever," failed to redeem a note at sight, the question would come before the Appellate Court and from there had to go to the King. It remained to be seen how effective this guarantee would

be when convertibility was really called in question; and against the peaceful persuasion which made gold exports difficult it certainly proved futile.

The Scandinavian Monetary Union.

The Swedish monetary system was governed by still another factor, which was destined to become of great importance in the turmoil of the Great War. This was the Scandinavian Monetary Union. Arranged between Sweden and Denmark in 1873, at the same date as the introduction of the Gold Standard, it was joined by Norway two years afterward. On paper it was very extensive, as both gold currency and token money were legal tender in all three countries. In reality the importance of this stipulation was rather limited, however. The Gold Standard automatically creates a sort of monetary union between all countries adhering to it; and what is created through the formal union, over and above the common standard, is only to give the monetary units of the different adhering countries, as a rule, the same value, and in this case, the same name, besides making at least the gold currency of all countries concerned legal tender throughout the union. The practical convenience of this is not to be underrated, and more perhaps is gained through the feeling of affinity which is created through the use of a common currency. But from a purely monetary point of view the effect is limited, because the exchanges between the union countries can fluctuate almost as much as between the rest of the gold countries, i.e., between specie points. The limits may be narrowed down a little, it is true, by the possibility of sending coin instead of bullion, which is valued only according to the amount of gold which it contains, while coin is received at its face value; but the difference is usually slight.

The Scandinavian Monetary Union, besides this, had a limitation which would not have occurred in countries where gold was used in circulation. The real currency of the Scandinavian countries, outside of token money, was not gold but bank notes, and about them the Scandinavian Monetary Convention had no word to say. In order to create real unity between the Scandinavian countries it was, consequently, necessary to extend the Union in order to guarantee the acceptance of bank notes at par, at least over the counters of the central banks of the three countries. The Swedish Riksbank appears to have received the notes of the neighboring countries at par almost from the beginning of the Union, though without any ex-

pressed stipulation to that purpose; the Bank of Norway adopted the same practice in the nineties; and in 1901 a formal agreement was made between the central banks of Norway and Denmark to that effect, the Swedish Bank remaining unbound, however. Along these lines a certain unity was created with regard to the normal currency, too, though altogether outside the formal Union.

Through this the fluctuations of the exchanges were narrowed down a little more than would have been possible through the help of the Gold Standard alone, because the cost of sending notes now replaced the higher cost of sending gold. But even after that, absolutely fixed exchanges were not guaranteed. Finally, this last step was taken, however, and during the middle period of the existence of the Union, for the twenty years from 1885 to 1905, a system held good which may be said to constitute the most important and interesting feature of the Scandinavian Monetary Union. At the instance of the leading man of the Danish National Bank, M. Levy, the three central banks agreed in 1885 to sell drafts upon one another at par, for not too small amounts (at first kr. 10,000 and afterward kr. 5,000, as a minimum), irrespective of the existence of balances at the other banks. So far as this system went, complete agreement in value between the three currencies was guaranteed, and capital might freely flow from one country to another without being hampered by fluctuations in the exchanges and without creating any; the need for sending gold in order to cover short-time disturbances in the balance of payments had also been successfully eliminated.

The complete unity in monetary policy which was the necessary qualification of this system created some uneasiness, however, especially in Sweden; and anxiety to avoid everything which might diminish the gold reserves or otherwise limit the note-issuing power of the central banks worked in the same direction. The Swedish Riksbank had never permitted the public to make unconditional use of the arrangement—no such stipulation was contained in the convention—and after the disruption of the political union between Sweden and Norway in 1905, Sweden gave notice of her intention to dissolve the agreement. New conventions, first between the Swedish and the two other central banks, and afterward between the last two, lacked a great deal of the importance of the first one. They put an end to the complete fixity of the exchanges which had been created through the old order of things, because it now became lawful to

charge for drafts upon the other banks. As a matter of fact, it was the two other banks, those of Denmark and Norway, which made use of this new power when drawing upon the Swedish bank, the natural explanation of that being a tendency to depreciation in the Danish and Norwegian currency, as compared with Swedish, which made purchases of Swedish currency at par a profitable business. The habit of making payments through drafts, consequently, disappeared to a great extent, and, in their stead, bank notes were transmitted in large amounts, some gold going over, too. In the years just before the Great War, consequently, it was largely the mutual, though not guaranteed, acceptance of bank notes at par which created a closer agreement between the three currencies than that contained in the Gold Standard itself. Official quotations were always kept at par, however.

But this did not mean that the Monetary Union lacked inherent characteristics which would create difficulties in case of any disturbance in the foundation of the whole system, viz., the Gold Standard. Token money in law and practice was common to the three countries, and would prove a nuisance to the countries upholding the Standard, if it was deserted by the rest; and though gold coins did not, as a rule, circulate, they might be expected to overrun the country which appreciated its currency as compared to gold, if the other countries of the Union did not follow suit. Both these disagreeable consequences of the Union were to come to light in Scandinavia during the War, and the first named had been predicted many years before.

The Value of Money.

In regard to the purchasing power of Swedish money at home, the same development took place as in all other Gold Standard countries, i.e., a fall in prices up to the middle of the nineties and a rise after that time. There can be no doubt, however, that the price level in Sweden showed an upward tendency as against the British price level after the introduction of a protective tariff by Sweden at the end of the eighties, at the same time having decreased as compared with the German level, because tariff duties were almost ten years older, and also higher, in Germany.

The domination of bank notes in the pre-war circulation of Sweden gave the country a rather simple and uniform measure of the

amount of circulation; a check law (as a matter of fact, a Scandinavian one) was not enacted until 1898; and the use of checks was altogether insignificant before 1914. Up to the beginning of the new century, bank notes came principally from the private banks, but a law of 1897 gave the Riksbank the monopoly of note issue; this power became almost absolute in 1903, and completely so in 1906. From a purely monetary point of view this much discussed change did not mean very much, however, because the two sorts of notes did about the same sort of work. Far more significant from the point of view of real currency conditions, and especially as a background to war-time developments, was the relation between note circulation and the level of prices before 1914.

In order to show this, Diagram I has been prepared, covering the Gold Standard period before the War. The basic period is 1893-1897, when the price level was at its lowest; increases and decreases are given in percentages of the position at that time. Curves are logarithmic, i.e., they do not show absolute changes from the base but a tendency to stronger or weaker relative changes in one year as compared with another. Though this construction of the diagram rather weakens the differences, it is seen at a glance that the increase of note circulation has been in no sense followed by a comparable rise in prices. Leaving aside the later seventies, when conditions of trade were very variable, the results are as follows.

The price level sank, as a whole, from 1880 to 1895, and rose almost without interruption after that year to the beginning of the War; the level was almost exactly the same at the end of the seventies as it became just before the War. But with this there did not occur, except in quite isolated years, any decrease in the note circulation. The circulation remained mainly constant during the first part of the fall in the price level or from 1880 to 1887; but later the circulation increased, and eight years before the price level, and this tendency continued. The result was that while the price level, as was just said, was almost exactly the same during the first and the last quinquennial periods (1875-1879 and 1909-1913), the note circulation between those two periods showed an increase from kr. 83,700,000 to kr. 217,900,000 or, at compound interest, an annual increase of no less than 2.85 per cent, which appears to be something like the international figure. But, far more than an aver-

age of two conflicting tendencies, the figures for the different periods show the real forces at work.

Period (Dec. 31.)	*Annual increase (+) or decrease (—) in*		*Coefficient (annual increase of circulation) for creating unchanged price level*[2]
	Price level	*Note circulation*	
1880-1895	—1.74%	+1.83%	+3.65%
1895-1913	+1.97%	+3.92%	+1.89%
1880-1887	—3.36%	+0.01%	+3.49%
1887-1913	+1.27%	+3.76%	+2.46%
1908-1913	+2.56%	+3.08%	+0.51%

The first two columns give the following results. During the first period, when prices fell, the circulation rose in about the same proportion; during the following period of rising prices, the increase of circulation was about double that of prices. The two periods afterward, given in the above table, are distinguished by a difference in the increase of circulation; during the first short period of unchanged circulation prices were falling at an enormous rate, while they rose during the following period of greatly increasing circulation, though far less than the note issue. Only the last period, comprising the years just before the War, showed any tendency to an agreement between increase of circulation and price level.

The tendency prevailing throughout the pre-war period, consequently, is shown to be a strongly increasing need for currency, and this finds its direct expression in the last column of the above table, which shows the amount of increase in circulation which would have been necessary in order to keep the price level unchanged; as will be seen, the amounts are very considerable. This ability of Swedish economic life to absorb increasing amounts of currency without an influence upon prices was certainly connected not only with general economic development, i.e., increase in the production and exchange of goods, but also with the progress of money economy throughout the country; and these factors were strong enough greatly to over-

[2] If the factor showing the increase of the price level be $1 + \frac{p}{100}$, and the same factor for the increase of circulation be $1 + \frac{p'}{100}$, the factor to which circulation will have to be multiplied in order to fix the price level will be $(1 + \frac{p'}{100}) : (1 + \frac{p}{100})$.

balance the opposite tendency which was caused by the extension of banking. But important as this is in itself, it must be placed in the background as compared with the results which follow from a comparison between different periods; that is, the difference between them is more important than their agreement. If the powers which were continually at work had been the most important, the natural result would have been, broadly, a steady increase in the need for new notes; and, at all events, rarely would any regress in this need of more money have shown itself in the pre-war period. The last column of the table presents quite another picture, however. The annual need for new notes is almost double during the first period, 1880-1895, what it was during the second, 1895-1913; and the last quinquennial period before the War, which, least of all, showed any economic stagnation, had, none the less, a need of increase of circulation which was barely one-seventh of the figure for the period 1880-1895.

This points the way to an important explanation of the principal effects that did follow, i.e., variations in the need for currency during the periods of rising, as against falling prices. When prices were falling, this so-called need increased, and when prices were rising it was falling; *ceteris paribus*, this tendency decreased with an increased rise in the price level, as will clearly be seen by a comparison, first, between the periods 1880-1895 and 1895-1913, and secondly, between the last-named period and its last part, 1908-1913. The explanation of the whole thing is a variation in the velocity of the circulation of money, between periods of good and bad trade, or between those of rising and falling prices; and this circumstance, which means that the character of the monetary system itself has a dominant influence on the need for currency, makes this much-repeated expression rather misleading, though no better one has been found. The results of this tendency have been particularly great since the War, and are a well-known feature of the last few years; but what seems to be less well known, is the great importance it had acquired even in pre-war times, at least in Sweden.

For the purposes of the present investigation the importance of this result, above all, lies in this, that there is no natural parallel between the development of note circulation and that of price level, nor can such a connection be established by introducing any constant factor corresponding to a supposed increase in the natural

need for money. What has been shown with regard to a connection between changes in the velocity of circulation and changes in the price level calls for an unbiased discussion of this problem, under conditions so exceptional with regard to the supply of goods and the trade situation as those of the Great War. In the present investigation figures will, consequently, be taken as they are, and not computed on the basis of any one presupposed influence or another.

The Character of the Central Bank.

There is no need for a detailed description of the general character of Swedish banking as a background to war-time developments. The most peculiar feature of Swedish banking was, and is, the situation of the Central Bank. The Swedish *Riksbank* not only is altogether a State bank but, what appears to be rather unique, also a "Parliament bank," entirely subject to the control of Parliament; this is a survival of what is called by historians the period of Estates government; and the position of the Riksbank has a counterpart in the Swedish Public Debt Office. The directors of both institutions are elected by Parliament, with the single exception (since 1897) of the Chairman of the Board of the Riksbank, who constitutes the single official connection of the Riksbank with the Government. Even legislation relating to Riksbank matters was a monopoly of Parliament in earlier times, but it became the joint domain of King and Parliament from 1830, and more completely from 1897; even after that time the Board of the Riksbank have usually taken the initiative, however, as being the trusty and well-beloved "counsellors of Parliament." Besides this, monetary affairs as a whole were widely believed to be the domain of the Riksbank; and, consequently, the system peculiar to Sweden had very important results for the influence of Government and Parliament upon our war-time monetary policy, though partly in a direction which nobody could have guessed beforehand.

The private banking system had, even before the War, spread itself all over the country and was, just at the outbreak of the War, developing in the direction of a great increase in concentration; such plans as were afoot at that time fell through on account of the War, but were soon followed by other measures of the same character. From the point of view of war-time monetary policy, in a restricted sense, there is, however, hardly more than one side of the

situation which must be mentioned, and this is the relation of private banks to the Riksbank. The disappearance of the note issues of private banks, combined with the very small use of payment by check, made it necessary for the private banks to have recourse to the Central Bank, i.e., to its note issue, in order to procure currency and, consequently, made it difficult for them to go below the official bank rate; after the disappearance of private notes there was no instance of this having happened. In so far as the Central Bank wanted to create larger credits through the private banks than these were able to give from their own means, the Riksbank rediscounted their bills at a lower rate than the official one. These relations between Central and private banks make it particularly necessary to concentrate attention upon the note circulation and the bank rate as deciding factors in the value of money.

CHAPTER II

THE INTRODUCTION OF PAPER MONEY AND THE DEPRECIATION OF THE CURRENCY

(August, 1914, to March, 1915).

THERE were several countries in which monetary policy occupied the center of public discussion even during the War; but England and Sweden probably were the two countries which first saw a serious treatment of these questions, and Sweden took precedence of England in so far as there was no need for guarding against abuses by public utterances from the enemy. Perhaps it may be added without presumption, that Swedish economists came near to correct explanations at an earlier date than their English colleagues, though this must, at the same time, be tempered by the remark that their results amounted to little more than a revival of the theory of the classical writers of economics, whose teachings several economists, both Swedish and foreign, appeared to have lost sight of for a long time.

To what extent this public discussion influenced the development of monetary policy is still difficult to decide; and even external conditions are not, in every case, possible to explain. But, on the other hand, the monetary history of Sweden during and after the Great War has been very eagerly and acutely studied; and an investigation in this History, presenting some rather unique features, has important predecessors to build upon.[1] It is, consequently, hoped that the most important facts and their causes can be brought to light.

The Outbreak of War.

Even in the week before the great upheaval, the disturbance of monetary conditions made itself felt in Sweden as elsewhere. Between the two weekly reports of the Riksbank on July 25 and August 1, the note circulation rose by kr. 35,600,000 from 206.2 to 241.8 or 17.3 per cent; and in the following week a new, and in absolute figures, an even greater increase took place, i.e., to kr. 281,900,000. On account of the lack of price figures for these exciting days

[1] Cf. the Bibliographical Note at the end of this Part.

it is impossible to say if this was caused by or resulted in a rise in prices; but there can be no doubt that the principal reason was a contraction of credit and a hoarding of notes. On the other hand, the amount of gold withdrawn was insignificant, both in absolute figures and, even more, in comparison with the increase of notes; between July 25 and August 1, kr. 2,900,000 out of kr. 105,800,000, or 2.6 per cent, was withdrawn, the greater part of this naturally being taken out in the two last days of the week.

In this situation the Riksbank took two measures, both of them in agreement with the continental banks.[2] On the one hand, the bank rate was raised, first, on July 31 by 1 per cent, and again, on August 3, by 1 per cent, to 6½; the rediscount rate for the benefit of the private banks, which has just been mentioned, was also abolished on August 1. Even after that, the Swedish bank rate did not come even within the neighborhood of the English figure—10 per cent—and did not quite reach the Danish rate, 7 per cent; but, on the other hand, it went a little beyond bank rates in Germany and France, which were 6 per cent.

Paper Money.

But while these measures would have been a protection to the pre-war monetary system, the Riksbank, at the same time, set itself to work the ruin of that system. In a communication to the Standing Committee on Banking of Parliament, on August 2, the Board of Directors based a plea to make its notes inconvertible upon the insignificant amount of gold withdrawn. The gold reserve of the Riks-

[2] In order to protect the country against losses in case of our being drawn into the War, the Riksbank, at the same time, sold considerably more than half its foreign assets to the private banks; this step afterward was adduced by the adversaries of the State ownership of the Central Bank as an argument against the existing system. As a matter of fact, the new treatment of the property of alien enemies made this step almost useless in war-time and under war conditions; and even if International Law in its old sense had remained intact, it may be taken for granted that the Central Bank, with its enormous importance to State action especially in war, under no condition would have been considered and treated like a private concern. While, consequently, on one hand the Riksbank's measure would have made very little difference in case of our being drawn into the War, on the other hand, the private ownership of the Riksbank would certainly, in such a situation, not have mattered at all.

bank was called "the financial backbone of the country," and any further appreciable decrease would, it was said, lead to "the most disastrous consequences, as to the ability of the Treasury to meet future calls upon it as to economic life in general." No explanation of this utterance was, of course, given; but kr. 100,000,000 was mentioned as a suitable minimum for the gold reserve, in spite of the law's having put the limit at kr. 75,000,000. Even the last-named stipulation was, besides, null and void if it was contrary to the Constitutional Law, which made unconditional convertibility of notes at sight the law of the land; but this legal guarantee now showed its inefficacy, in spite of everything which had been done to strengthen it. The measure of the Riksbank was subjected to the consideration of the Standing Committee on Banking, and the Committee gave its approval, though no authority, and least of all a Committee of Parliament, could make inconvertibility legal, as this would have called for the passing of two acts of Parliament, with a general election intervening.

Paper money was now a fact. In order to make it legal, a procedure was put on foot, however, through a Government Bill brought in on the initiative of the Directors of the Riksbank; the Bill, which was introduced on August 12, contained an amendment to Article 72 of the Constitutional Law; in April and May, 1915, the legal forms were at last made consonant with inconvertibility; and paper money was thus legitimized about nine months after its birth.

The amendment of the Constitutional Law made it legal for King and Parliament, "when this was considered indispensably necessary on account of war, danger of war or a severe monetary crisis," to annul the convertibility of notes for a limited time. Between sessions of Parliament the King was empowered to make this dispensation on the initiative of the Bank and after having consulted the Directors of the Public Debt Office; to remain in force this form of dispensation had, however, to be formally approved in the next session of Parliament, within twenty days of its meeting.

This new enactment said nothing at all about the positive character of the new standard. The Gold Standard had made the monetary unit equivalent to 1/2480 of a kilogram of pure gold; but the new standard had neither substituted another norm for this, nor created any sort of machinery to do duty for that which, under the Gold Standard, prevented the currency from deviating from the norm

which had been laid down. Only one single, clearly defined limit to the changes in the value of money remained; the monetary unit could not *exceed* the value of 1/2480 of a kilogram of pure gold. For the Central Bank and the Mint had to receive gold at the minting price, or a little below, as before; and so long as this obligation remained, every tendency of the notes to appreciate, i.e., to exceed the value of gold, would infallibly lead to the sale of gold to the Riksbank and, consequently, to an increased circulation of notes. As has usually been the case in the history of money, the paper standard created in 1914 was fixed only in one way, i.e., it was unlimited downward but limited in the upward direction; it could decline indefinitely, as compared with gold, but could not exceed its old value in gold.

The Limits of Note Issue.

There were other limits to the power of the Riksbank over the value of money, however. They made part of the law relating to the note issue. This, before the War, had been only of indirect importance; for so long as the Gold Standard prevailed, the monetary unit could not diverge, outside very narrow limits, from its value in gold. But when the old system disappeared, the law which regulated the note issue would have taken on an independent power to control the value of money. Since 1913 the right of note issue was subjected to two conditions, first, that it must not exceed twice the amount of the gold reserve plus kr. 125,000,000, and secondly, that the gold reserve was not to fall below kr. 75,000,000. On the basis of the average circulation in the first half of 1914, or kr. 214,000,000, the minimum gold reserve would have meant a proportion of 35 per cent to the notes, the real proportion being from 48 to 49 per cent. On the other hand, the note issue might have been greater than the real one even when the gold reserve had not exceeded its minimum, kr. 75,000,000; and the reserve as it stood, kr. 103,000,000, was enough to cover the circulation of kr. 331,000,000. That part of the circulating notes which was not covered by gold had to be covered by some expressly mentioned government securities, bonds, bills of exchange, foreign assets, etc., the so-called supplementary cover.

As has been seen, the circulating notes, after the outbreak of the War, had increased several times more than the decrease of the gold

reserve; and it would only have been natural if the anxiety of the directors of the Bank had been greater over the former fact than over the latter. This anxiety, as might have been expected, did not take the form of an eagerness to restrict the note issue, however, but on the contrary, took shape as a desire to enlarge the right of note issue. On August 18 they asked for an amendment to the existing law, which would empower them to issue another kr. 125,000,000 without cover of gold; to this were added some proposals of minor importance with regard to the supplementary cover and the issuing of one-krona notes. As hardly anybody at this date had given a thought to the need of a substitute for the guarantees which had been inherent in the Gold Standard, this proposal was accepted in principle by everyone, though its provisional character was somewhat more emphasized in the decision of Parliament than in the original Bill. The amendment gave King and Parliament, and between sessions the King alone, the right to grant the new note issue of kr. 125,000,000 in case of emergency; but the Directors must cancel the new issue as soon as possible. If this license was given, the Riksbank would be able more than to double its note circulation in existence at the outbreak of the War, on the basis of its then gold reserve; and it stands to reason that limitations on the right of note issue would then lose their power to regulate monetary policy. As a matter of fact, it would be a long time before the Bank even asked for the right which had been conditionally conferred upon it through the amendment of the law of note issue.

The Prohibition of Gold Exports.

If, on August 2, the exporting of gold had been prohibited, instead of making notes inconvertible, the result would probably, at least in the beginning, have been almost the same; for there was hardly any reason for withdrawing gold which could not be exported, when there was no gold circulation in the country. On the other hand, the prohibition of export for the same reason was of almost no importance, as soon as the Riksbank had been closed to gold withdrawals; for outside the Riksbank there was probably very little gold to be found. Consequently, the export of gold was not prohibited before November 25, 1914; but after that date even this link with an international gold standard was snapped.

The Monetary Union.

All these changes, which altered the Swedish monetary system past recognition, had been made without any reference to the Scandinavian Monetary Union. Notes had been made inconvertible in Denmark and Norway at about the same time as in Sweden; and the exporting of gold had been prohibited a great deal earlier—on August 6 and on August 18, respectively. Consequently, the three countries had nothing on which to reproach one another; but, none the less, they had all of them been driven into an order of things which was incompatible with the Monetary Union, based as it was upon the Gold Standard; and no measures were taken against the consequences of this. Nobody seemed to be conscious of the fact that the groundwork of the Union had been destroyed. The consequences would appear at a later date.

The Moratorium.

At the same time some emergency legislation had been carried which applied not only to private banks but to the whole credit system of the country. All banks were closed on the first three week days after the outbreak of the War, in order to give time for the carrying of a bill embodying the principle of a moratorium. On the third day it became law. But the developments of the monetary system, in connection with the war-time boom, soon made this dangerous legislation altogether unnecessary; and the Moratorium largely passed away in the second half of October, with the exception of debts to persons living in foreign countries, and prohibitions upon the sale of mortgaged property. Even these last phases of the conception of a crippled economic life which prevailed in the first days of the War disappeared during 1915; and the direct importance of the whole episode, for the Swedish monetary system, went very little beyond the first few months of the War.

After this description of the first government measures relative to currency and credit, we have still to see what was the development of actual economic conditions.

Motives of Monetary Policy.

The consequences of the fact that the norm which was inherent in the Gold Standard had not been replaced with any other showed

themselves from the first days of the War. The Riksbank had lost the old principles which had had to govern its policy, and its critics, when challenged, were unable to point to any rule in Law which remained binding upon the monetary system of the country. The situation, consequently, became chaotic. This refers to the period up to March, 1915, which may be considered as the limit of the first period of Swedish monetary history during the War.

Chaos showed itself first in the case of gold. Immediately after the outbreak of the War, Swedish currency depreciated—sterling, dollars, and francs being at a premium in Stockholm, and after one month, florins. This went on almost without interruption up to March, 1915, at which time the exchange upon the four countries was from 7 to 9 per cent against Sweden, some fifteen to twenty times the divergence which had developed under the Gold Standard. As none of these countries had, at that time, laid an embargo upon gold, their currencies could, at least, not have appreciated as compared with gold, but might even have depreciated; consequently, the deviation of the exchanges expressed the minimum of the depreciation of the Swedish currency; and a more exact definition of the situation had been made impossible through the disappearance of all free gold markets. But while the currencies of the Allied Powers went to a premium in Stockholm, there were other currencies which were at a discount: first, rubles and Austrian crowns; later, Finnish marks; and finally, though only after more than two months, reichsmarks. By about the end of March, 1915, the last-named currency was at a 6 per cent discount compared with Swedish kronor. The quotations of the Riksbank, which have here been used, actually understated the real change; for without exception, they put the value of sterling, which at that time was, in Stockholm, incomparably the most important currency of the first group—too low, and, at the same time, the reichsmark was often put too high. In consequence, Swedish kronor—and, to an even higher degree, reichsmarks—had lost considerably more of their value compared with gold than the figures showed.[3]

[3] As there was no exchange for foreign bills in Stockholm, the quotations of the Riksbank were the only ones regularly published. Their frequent deviation from the market rates gave rise to complaints and various attempts at improvement, the most important being when representatives of the private banks met and proposed quotations; later on they met in the presence of a

The next question is whether or not the almost omnipotent directors of the Bank regarded it as their duty to maintain the value of Swedish money as against gold.

The abolition of the Gold Standard did not necessarily create any change in this respect, because it would have been possible to make use of the Gold Exchange Standard, which before the War had prevailed in Austria in particular, i.e., the bank might always have tendered foreign bills on Gold Standard countries at par; in that case the change from convertible notes would have been insignificant. Already, however, the tendency of the Bank to make quotations which were not genuine, was incompatible with this; for the quotation, in that case, did not even bind the Bank itself—quotations were expressly called "nominal"—and these tactics were, least of all, able to create the unlimited supply of bills at par which constitute the character of the Gold Exchange Standard.

Quite irrespective of this technical difficulty of a consistent policy on the basis of the old gold value of the currency, the Bank directors thought that they had many reasons for not adopting it. Curious as it may seem, one reason consisted in the fact that foreign currencies developed in different directions. As late as the spring of 1915, the Governor of the Bank, Mr. Victor Moll, declared that if the discount of the reichsmark had gone further, owing to a recurrence to par, as against sterling and dollars, on the part of the Swedish currency, "the dissatisfaction of our exporters on account of this would have increased and might with good reason [*sic*] have turned against the Riksbank." He asked what our exporters might be expected to have said, "if the Riksbank had used its influence to depress the reichsmark quotation even more than now?" Not only bankers but the business world as a whole kept to the belief that the different currencies remained identical with those currencies of the same names which had been based upon gold; and as the deviations of the gold currencies had never been of any importance in peace time, they dismissed all explanations of the new situation except "abnormal" conditions, that is, temporary disturbances, disproportions in the balance of payments as against each particular

representative of the Riksbank. Even after that, the official quotations did not come into complete agreement, however, with real conditions; but taking a broad view of the situation, it is not, in the main, necessary to point out the differences.

country, surpluses or deficiencies in particular sorts of foreign bills, disappearance of arbitrage and the like, but on no condition would they admit any change in the fundamental value of the currency. In this view, 100 reichsmarks remained no less valuable than 88.89 Swedish kronor, one pound sterling no more valuable than 18.16 Swedish kronor; and so long as this opinion prevailed, it is easily understood that the Riksbank believed its duty lay in taking all exchanges alike into consideration on their pre-war basis.[4] This carried the greater weight in so much as people like the Governor of the Bank, in the words just quoted, as a natural consequence of their general idea regarded every foreign exchange at a discount as an impediment to exports, and every exchange at a premium as an impediment to imports.

So far as one can judge, the Riksbank had, over and above this, a positive reason for keeping the Swedish currency below par, as was pointed out by its critics and, and first among them, by Professor Gustav Cassel. The reason consisted in the inordinate amount of its assets held in reichsmarks. According to the last figures before the War, relating to June 30, 1914, out of a net total for foreign bills and other assets in foreign countries, foreign government securities not included, amounting to kr. 113,940,000, kr. 93,870,000 was in reichsmarks, which at par in Swedish currency represented 74 per cent of the total. This was only natural, as before the War Sweden normally had an excess of imports from Germany, as compared with an excess of exports to England, and, consequently, more often felt the need to make excess payments to the first-named country; also, at the end of the three years preceding the War, German assets had prevailed. On account of the unexpected turn

[4] The conception prevalent in the business world is well illustrated by the reflections on these changes which occurred weekly in the trade journal *Affärsvärlden*. E.g., in the number for October 31, 1914, we read: "The very great divergence between the exchanges, rests of course [*sic*] upon the fact that arbitrage in the real sense of the word is made all but impossible. . . . Each currency consequently is a unit by itself and is regulated by the trade relations with that country. With Germany our balance of trade is favorable, consequently the value of reichsmarks with us stands low," etc. How, according to this idea, it was possible for the relations between the different exchanges to be broadly the same in all the different countries, does not seem to have concerned the writers. The utterances of the Governor of the Bank were almost literally the same.

which the monetary systems of belligerent powers now took, losses were unpreventable, though they might have been lessened, through sales of German marks. But such losses might be concealed to a much greater extent if the Swedish currency was allowed to follow that of Germany on its downward road; and the words of the Governor of the Bank clearly corroborate the existence of that thought. He expressly pointed out, for example, the reproaches which would be leveled against the Bank, if its surplus decreased on account of measures for upholding Swedish exchange, "without necessity"—this, by the way, a striking illustration of the consequences of the disappearance of any such necessity, because of the abolition of all legal norms for monetary policy.

It goes without saying that the ideas actuating the controllers of the Bank would make them even more impervious to one solution—that of making the *price level* a regulator of their policy. This conception had hardly gone further than the world of theorists before the War; and in Sweden it met, besides, an elementary obstacle in the fact that no index numbers had been computed before the beginning of 1918. According to an index which up to 1918 gave figures only for quarters, the price level, on a basis of the twelve months from July, 1913, to June, 1914, had risen during the third and fourth quarters of 1914 to 111 and 120, respectively, and in the first quarter of 1915 to 135, that is, it had made an enormous increase as compared with pre-war figures and several times the premium on foreign exchanges.[5] But this fact was of no influence, for the reasons just given.

The right answer to the question, what the motives of monetary policy at this time seemed to be, was that the policy followed no conscious objects at all; and no better illustration can be found of the consequence of the disappearance of a norm for the monetary standard. No point of view returns more often in the rather numerous utterances of the Governor of the Bank at the time than this, that one was powerless with regard to developments in the case of

[5] See Diagram II. Undoubtedly the bases of this index before 1918 are somewhat insecure; but there is no reason for supposing there is any tendency to err in any particular direction, and it seems to be impossible to come nearer the truth. The deviations, besides, are, as a rule, great enough to leave the general direction very plain, though the strength of the development might, it is true, be questioned.

the exchanges; first and foremost the idea was flouted that the bank rate could be of any importance; but other measures also, such as internal government loans, were declared to be ineffective. The Governor took particular pains to explain that the Bank simply gave out the rates of exchange and did not determine them, and prided himself upon its quotations even going below those of the open market; he meant to show by this the inability of the Bank to create more favorable rates. If this argument proved anything at all, it meant that the Bank was also unable to influence a market situation for which the quotations simply were—or at least ought to be—an expression; and that was clearly the opinion of the Bank's directors.

The Causes of the Developments in the Monetary Situation.

Irrespective of the question whether the factors which governed developments in the monetary situation up to March, 1915, were the result of any conscious action on the part of the Bank or not, they will now have to be studied.

Beginning with its *discount policy*, it followed mainly the same line as that of other countries. The sharp rises in the bank rate at the outbreak of the War were, clearly, meant simply as warnings, not as permanent impediments to a fall in the value of money; and they were, therefore, soon given up. The rediscount rate came into force again as early as August 11, 1914, i.e., the rate was lowered ½ per cent for the private banks; on August 28—and even that was later than the date when most of the central banks of other countries took the step—the general rate was lowered by the same percentage, coupled with the same—and a second—decrease in the rediscount rate; though even so the rate was higher than in most countries. Just at the beginning of the new year, or on January 7, the bank rate was lowered another half of one per cent, or to 5½ (5 per cent for rediscount); and it remained at that point for upward of sixteen months.

The next question refers to the development of *note circulation* under the influence of this policy. The simplest statement would be that there was no such development during the first period, i.e., after the tremendous increase in the last week of July and on August 1. In Diagram II index figures are given, normal seasonal variations being eliminated; and it will be found that the circulation remained

surprisingly constant up to September, 1915. Just before the beginning of 1915, and again at the end of February, the Bank received gold in certain small quantities (kr. 8,500,000 in all), no doubt from Germany; and some Swedish Treasury Bills for £1,100,000, which were paid in England during the spring of 1915, seem to have been met by German gold which does not appear in the reports of the Bank. But nothing of this seemed to have had any influence upon circulation. At a first glance it, consequently, looks as if both the increase in the premium of foreign exchanges and the far greater increase in the internal price level had been unconnected with the circulation and with the policy of the Bank, and that the Bank's directors had good reasons for disregarding the demands for a change in their policy. But appearances in this case are almost certainly deceptive, and part of the situation is made clear if the whole war period up to that time, including the two weeks before and after the outbreak of the War, is taken into consideration.

If our study is limited to the period beginning with the fourth quarter of 1914 and ending with the first quarter of 1915, we find that an unchanged note circulation goes with an increase in prices from 111 to 135, i.e., an increase of 21.6 per cent, or more than the increase of a decade before the War. But if the whole war period is taken into account, the agreement for the first quarter of 1915 becomes quite close—a 25 to 30 per cent increase in circulation and one of 35 per cent for the price level. The explanation nearest at hand is this, that the increase in note circulation at the outbreak of war was not caused by credit expansion but by the hoarding of notes; and that, when hoarding had come to an end, a credit expansion could make use of the notes thus set free, i.e., that there was no need for new notes to meet this expansion of credit. A look at Diagram II will show, however, that the increase in the price level had already, in the first quarter of 1915, gone beyond the increase in circulation, and the reasons for this will be set forth later on. (See p. 175.)

More difficult to explain are the developments in the case of the exchanges. During the War it was confidently asserted that the reason for the depreciation of Swedish money up to the spring of 1915 lay in a sharper rise in prices in Sweden than in countries like England, which had at that time kept the gold parity. There may have been a limited amount of truth in this assertion; but it must not be inter-

preted as its advocates interpreted it—that the rates of exchange expressed the differences in the purchasing power of the currencies of the respective countries. As will be seen from Diagram IV, it is true that the rise in the Swedish price level was from the beginning greater than that in the English, and the explanation of the premium on sterling in Stockholm might, in a sense, be found in this fact; but the figures also show that the change in the relative position of the two price levels was, as a rule, more than double that of the difference in exchanges, as will be seen from the following figures:

	July, 1913-June, 1914	*1914*		*1915*
		3d Qr.	*4th Qr.*	*1st Qr.*
Sterling exchange[6] percentage	100	101	104	106
Rise in Swedish prices (British = 100)	100	105	111	113

To resume: From the beginning of the War, the Swedish price level had (a) shown a great rise; the value of Swedish currency in gold, or foreign valuation, had (b) decreased considerably; but the decrease in the value in gold, or in the foreign valuation, had (c) been much smaller than what corresponded to the relative changes of internal and foreign prices. In other words, the foreign valuation of Swedish currency had decreased less than its internal purchasing power. This difference was so great that it cannot, with any reasonableness, be laid at the door of the undeniable weaknesses of price statistics; and it remained without a single exception all through the War. Consequently, we stand before a fundamental problem in the history of the Swedish monetary situation during the War, though this did not become clear until several years afterward. At the beginning it was contended, in direct contradiction to the facts—facts which were unknown at the time, it must be added,

[6] Sterling exchange in its ratio, not to parity, but to the average from July, 1913, to June, 1914, or kr. 18. 22½ per pound sterling.

With regard to index numbers it must be emphasized that the comparison does not show relative price levels but only relative *changes* in the levels, cf. p. 22. The certainly not insignificant difference in the purchasing power of gold in England and in Sweden under the Gold Standard is, consequently, eliminated. On account of the incompleteness and limited reliability of price figures this is almost always done. But, none the less, the result is usually, though quite wrongly, regarded as a comparison of the price levels themselves.

however—that exchange rates and relative price levels strictly corresponded.

From the point of view of monetary policy this fundamental fact leads to quite different consequences if the object of the policy is a formal one, i.e., a return to the old legal foundation of the currency; or if, on the contrary, the material object of the monetary system, as consisting in stability of the price level or of the value of money, is taken into account. From a formal or legal point of view the curious situation just described was a great help to the Riksbank; for gold parity might already have been held at a price level where the value of Swedish money had deteriorated more than say, English, and consequently—as even in England the price level had increased—in the case of what might be called a double fall in the value of Swedish money. This greatly facilitated the Riksbank's task of keeping to gold parity, and made the depreciation of Swedish money, as compared with gold, even more striking than it would otherwise have been. But from a material, as distinct from a formal, point of view, the situation, on the other hand, meant that even a return to gold parity could not guarantee even the greater part of what might be considered the object of monetary policy, i.e., stability in the value of money. For two reasons—a decrease in the international value of gold and a rise in the relative foreign valuation of the Swedish currency—this could not have been attained without a considerable *premium* on Swedish currency as compared with gold. This is a very important premise for the turn which Swedish monetary policy was to take later on.

Our first task will now be to look for an explanation of developments in the value of money in Sweden as compared with the foreign exchanges.

Price Levels and Rates of Exchange: the Theory.

Formally speaking, the explanation is rather simple, as there does not exist a necessity or even a probability for the opinion that the equilibrium of the exchanges should stand at the same point as the relations of purchasing power of the currencies of the respective countries. As a matter of fact, the statistics generally adduced to prove this do nothing of the sort; for they take as their starting point exchange rates and price levels during a certain period—usually the period just before the War—without even the semblance

of a proof that the exchanges at that time really corresponded to the relation of price levels. When, now, exchanges and price levels during the period that followed corresponded to the situation which had been chosen for a basis, this, consequently, by no means showed that the exchange rates corresponded to the relations between absolute price levels, but only that the forces at work were unchanged. In the course of such an enormous upheaval as that of the Great War this was extremely improbable, however; and there is, consequently, every reason to expect *another* relation between exchange rates and price levels than that which prevailed before the War. Views upon this subject during and, even more, after the War, have been founded upon a simplification, and a vitiation, of the classical theory of foreign trade and exchanges; and it is only by going back to the complete theory, as it is set forth by Ricardo and his principal follower, John Stuart Mill, that the real connection can be found.[7]

The conception that the exchanges represent relative price levels, or, what is the same thing, that the monetary unit of a country has the same purchasing power both within the country and outside it, is correct only upon the never existing assumption that all goods and services can be transferred from one country to another without cost. In this case, the agreement between the prices of different countries is even greater than that which is covered by the conception of an identical purchasing power of the monetary unit; for not only average price levels but also the price of each particular commodity or service will then be the same in both countries, if computed on the basis of the exchanges. That is, the price must be twice as great in a country the monetary unit of which, in the exchanges, has only half the value of that of the other country. As soon as this does not hold good, the goods—always on a supposition that no cost of carriage comes in—will rush to the country where they are more highly paid for, and this will go on as long as the difference remains.

[7] The best exposition still appears to be the treatise of J. S. Mill, "Of the Laws of Interchange between Nations, and the Distribution of the Gains of Commerce among the Nations of the Commercial World" (in his collected *Essays on Some Unsettled Questions of Political Economy,* published in 1844), as well as his *Principles of Political Economy,* particularly Book III, Chaps. 21-22 (1848). The argument needs, however, to be elaborated in different directions in order to solve the problem now at hand. The present volume is not the place for a discussion of the details of the history of the doctrine. But cf. the Bibliographical Note at the end of this Part.

At the same time, in this as in other cases, the fundamental principle underlying the exchanges will hold good. This law is nothing else than the general law of price, meaning that the rate of exchange must create an equilibrium of supply and demand in regard to bills, i.e., of matured debts owing to the country and matured debts due from it. If, in this situation, the export goods of one country should become, e.g., more in demand in foreign countries than before, as compared with the import goods of the country, say, iron ore, iron, pulp, and machinery from Sweden, in comparison with coal, coffee, cotton, and textile goods—prices must rise for the first group compared with the second. Equilibrium between supply and demand will then be created in the following way: The price changes hold back the demand for the goods which have grown dearer, and stimulate it for those which have been made cheaper; but in the case of each particular commodity the price change will be exactly the same in both countries, and prices will, consequently, not differ in one country as compared with another, on the basis of the exchanges. Given an unchanged rate of exchange (say under the international Gold Standard) this, however, will normally create a demand for an increase of currency in the country the goods of which have been subject to a stronger foreign demand than before, relative to other countries. For the first-named country receives a greater quantity of goods than before, as more foreign goods are given in exchange for those of that country; and, as the unit prices are the same in both countries, more money is there needed for the total of the commercial transactions.

But the situation which has now been discussed never agrees with actual facts, as has already been said, for there always is the cost of transferring goods from one country to another; and it has been mentioned simply on account of its being the only one, in regard to which the conception of "purchasing power parity"—as we have seen, as a matter of fact even more than that—can be expected to hold good. As soon as we take into consideration the fact that the exchange of goods and services between countries means expenses, two very important consequences will follow, both of them giving rise to a consideration other than that which has now been discussed.

One of these consequences is that goods stand higher in the importing than in the exporting country, by just so much as is represented by the cost of carriage; on account of this all identity in the

price of the *particular* goods in different countries will disappear. The only question is if, instead of an identity of prices, a balance among them will follow, so that goods which are made dearer through the cost of carriage will exactly counterbalance those which are made cheaper. Clearly, this is possible; but, as clearly, it is not *necessary*. If this result is to take place, the first requirement is that costs of carriage shall also be in keeping, i.e., play the same part in the imports as in the exports of a country, or—what is the same thing—have the same influence for different countries. If, say, the cost of carriage should increase the prices of import goods, relative to their prices in foreign countries, more than the rise in prices of export goods through cost of carriage, relative to *their* foreign prices, the price level of the country, say Sweden, will be higher than that of foreign countries, when computed on the basis of the rate of exchange. Such a situation can arise for many reasons, e.g., relatively heavy or bulky import goods, or an intentional increase in the prices of imports through protective duties or other impediments to imports.

This might also be explained in another way. The assets or foreign bills due to Sweden fall in value, as compared with the internal purchasing power of foreign currency, because so much of this purchasing power is lost before the goods reach the importing country, in this case Sweden. As, on the other hand, no proportional decrease in value takes place with regard to the bills on Sweden, belonging to foreign countries, at an unchanged rate of exchange and unchanged prices on both sides, it will become less remunerative to Sweden to import from foreign countries, but quite as remunerative as before for foreign countries to import from Sweden. Consequently, the result will be an excess of the demand for bills upon Sweden. In such a situation one of two things must follow; either exchange upon Sweden will be at a premium in foreign countries, i.e., foreign exchanges will be at a discount in Sweden; or the price level must rise in Sweden. The second alternative requires an increase in domestic currency, and this must be created, if the rate of exchange is to remain on its old level; in the opposite case, foreign exchanges will be at a discount in Sweden. Such is the result of an unsymmetrical cost of carriage between countries.

But this is only one of the consequences which follow from the fact that goods cannot be exchanged between countries without cost.

The second consequence is this, that not all sorts of goods and services can be exchanged between countries. As a matter of fact, an international interchange of some of the things necessary to man is altogether out of the question, e.g., housing; and it is very difficult in the case of other things, e.g., personal services. But even in cases where interchange is quite possible, it does not take place if it requires cost; that is, if the cost is greater than the difference of price between countries. Consequently, the prices of a great number of goods and services are independent of international markets; and these prices will stand in no direct connection with the rate of exchange. Even if the cost of carriage were the same for imports and exports, and the prices of the goods which were being interchanged were, on an average, at the same level in both countries (when computed on the basis of the rate of exchange), it would, consequently, by no means follow that general price levels would be the same (computed on the same basis).

This, however, shows no more than the absence of a *direct* connection between wholly domestic goods and the rate of exchange. *Indirectly*, on the other hand, there is always a connection between all different prices within the same community, on the ground that the same means (or factors) of production are used for different products and must influence their prices, because they must themselves, in the long run, command the same price for all their different uses. But important as this is, it does neither for the moment nor even in the long run create a *uniform* change in the price level in the different countries.

For the moment, this is prevented simply by the fact that some time must elapse before a unity in the prices of the means of production has reappeared after important dislocations. The disturbances of the Great War, which were in this respect probably rather increased than mitigated by the manifold activities of the State, constituted unique obstacles to such a uniformity; and probably it had only in quite exceptional cases been reëstablished before the end of the War.

When, however, the means of production have regained their unity of price in different occupations, a change has taken place in the prices of all goods in the production of which they are used. This change is clearly dependent upon the part played by the different means of production in the processes. Such goods, which for

their production use much of some factor whose cost has been increased through a change in international demand, will rise in price relatively to other goods; on the other hand, goods produced by factors which have been cheapened, will move in the opposite direction. To return to our former illustration: If Swedish export goods, taken as a whole, have found an increased foreign demand, prices will rise for all such Swedish goods as are produced by factors of production which are used for export goods, as compared with the prices of other goods. If, at the same time, demand has been going down in the case of Swedish import goods, a relative fall in price will have taken place for Swedish factors of production which are used for goods which compete with the imported ones and, consequently, upon such Swedish goods as well.

The final result of this, quite necessarily, will be a rise in price, as compared with foreign prices, for Swedish goods which are not exchanged, taken as a whole. For they are wholly produced by Swedish means of production. And as Swedish export goods have met with an increased total demand, as compared with Swedish import goods, the same thing has happened to Swedish factors of production, used for exports, compared with those of foreign countries; the valuation of the products and that of the factors of production must go together. Consequently, a country which is subject to an increased foreign demand for its goods and (at an unchanged rate of exchange) a rise in prices for its export goods will, almost certainly, also experience an average rise in prices in the case of those domestic goods which are not exchanged internationally; while the opposite development takes place in a country which finds less demand for its export goods.[8] At the same time it must be remarked,

[8] This—the price development for purely home commodities in the case of a change in the demand for the export goods of a country—in my opinion constitutes the principal basis for the trend of thought first started by Ricardo but further elaborated by J. S. Mill. The following quotation from the *Principles of Political Economy and Taxation,* by Ricardo (1817)—often given, but not seldom misunderstood—appears to leave no doubt of their position. "The higher value of money will not be indicated by the exchange; bills may continue to be negotiated at par, although the prices of corn and labour," (i.e., the general level of prices, according to modern terminology) "should be 10, 20, or 30 per cent. higher in one country than in another. Under the circumstances supposed, such a difference of prices is the natural order of things, and the exchanges can only be at par, when a suffi-

however, that the importance of this inference is very variable, in proportion to the part played by foreign trade in the economic life of different countries taken as a whole. Only by the merest coincidence is it, consequently, to be expected that the price level will develop in the same direction for different countries in the case of goods which are not exchanged between these countries; and the deciding influence upon these prices will come from the prices of export goods, which will raise the price level when the demand for the export goods of the country increases, and vice versa.

The dividing line now drawn between goods which are and which are not exchanged is misleading, however. For this dividing line is never laid down beforehand. On the contrary, it is, in itself, influenced by the rate of exchange. Before this point has been cleared up, nothing at all is, consequently, explained; but when it has been cleared up, an additional light is shed upon what has gone before.

The higher, for instance, the currency of a country rises in foreign valuation (relative price levels regarded as unchanged), the fewer goods will be exportable from that country, and the more be importable to it; the opposite is the case if foreign valuation of the currency of the country is falling. Every alteration in the rate of exchange (at unchanged relative price levels) will, consequently, transfer groups of commodities, or parts of such groups, from or to the exportable category and, at the same time, to or from the importable category. Under these conditions the deciding factor, as well for the rate of exchange as for the dividing lines between exportable goods, importable goods, and goods which are neither importable nor exportable, will be this. It is true, not only must the amount of imports and exports, but all transactions creating matured debts due from, and owing to, the country be, at every moment, in equilibrium; and this will be effected through the rate of exchange. If, say, Swedish export goods meet with an increased

cient quantity of money is introduced into the country excelling in manufactures, so as to raise the price of its corn and labour. If foreign countries should prohibit the exportation of money . . . . they might indeed prevent the rise in prices of the corn and labour of the manufacturing country . . . . ; but they could not prevent the exchange from being very unfavorable to them." (Paragraph 53, p. 127, in Professor Gonner's edition; pp. 83 f. in that of McCulloch). The last sentence contains the kernel of the theory of foreign exchanges under the conditions of paper money.

foreign demand and, consequently, rise in price within and outside of the country, the foreign debts owing to Sweden will increase; and, at an unaltered rate of exchange, against this will stand an unchanged debt due to foreign countries on the part of Sweden; consequently, an excess of debts due to Sweden will be the result. Foreign exchanges must, therefore, be at a discount in Sweden, and foreign valuation of Swedish currency must rise. That, in its turn, will lead to this: the exporting of a portion of those Swedish goods hitherto exported will be made impossible, and new exports to Sweden made possible; a decreased quantity of Swedish goods will be exchanged for an increased amount of foreign goods; this is simply another expression of the fact that the value of Swedish goods has increased, as they bring in more foreign goods than before. The rate of exchange remains at the point where an equilibrium of matured debts owing to, and due from, other countries has been created. What has been said before about importable, exportable, and neither importable nor exportable groups of commodities, about their price relations, and about the rate of exchange, is applicable to *this* situation.

In the instance just given, it has been assumed that an increased foreign demand for Swedish export goods has depressed the value of foreign currencies in Sweden to a point where the export of the remainder of our goods has been limited and imports have been stimulated to an extent which makes them equal. In this case, no change in monetary conditions will be necessary on either side; for the alteration of the exchanges will be enough to create those corrections in imports and exports which are necessary to a state of equilibrium. If, on the contrary, the rate of exchange is fixed, as was mainly the case under the Gold Standard, the equalization must be effected in another way. Under the Gold Standard in its classical form, payment from foreign countries will, in this case, be made in the form of gold, to the amount of the excess of debts due to Sweden; and these gold movements formed in the last instance the corrective of the Gold Standard. None the less, they do not command the chief interest in this connection. For this precise form of payment seldom materialized in the years preceding the War; secondly, and principally, the transfer of gold in itself can create equilibrium only once; and it must go on indefinitely if the rate of exchange is to be kept in its old place, in spite of a change in equilibrium. The

only real and permanent remedy must consist in—the rate of exchange considered as fixed—finding new monetary foundations; and this is effected through a change in the monetary systems of the respective countries. An increase in the circulation and a fall in the value of money must take place in that country, the currency of which would otherwise have had a higher valuation than before; and the reverse must occur in the other country. Under the Gold Standard in its classical form, this became a result of gold movements, and attention was, therefore, first of all, very naturally bestowed on them; but the same result may be effected by a spontaneous change in the amount of circulation in the respective countries. When, in consequence of this, Swedish prices, e.g., rise as compared with foreign ones, the necessary stimulus to foreign imports into Sweden and the deterrent to Swedish exports to foreign countries will be given, and the restoration of equilibrium will be effected. This relative change in prices makes an increase in the circulation of Sweden, relative to that of foreign countries, necessary.

When this has taken place, when imports to Sweden have increased and exports decreased, the prices of goods which are interchanged will differ by the amount of the cost of carriage only, it is true; but as has been shown, Swedish goods which are not exchanged will also, in all probability, rise in price. The value of Swedish, as compared with foreign, factors of production has permanently risen, which is the same thing as an increase in the national income of Sweden, created by a Swedish right to more foreign goods, in return for Swedish, than before. And this higher value of the national income of Sweden will, at a fixed rate of exchange, require a greater amount of currency, which is, at the same time, a necessary qualification for an equilibrium between debts owing to, and due from, Sweden.

The state of things now described is of importance not only to the Gold Standard but also in the case of paper money, for the reason that the rate of exchange can also remain fixed under the last-named system. But under paper money there are several alternatives with regard to alterations in the rates of exchange, and relative amounts of circulation or price levels. Either of these may be left fixed if the necessary change is made in the other, or both might be changed enough to meet the new situation. But the *relation* between the rate of exchange and relative amounts of circulation or price

levels is independent of monetary systems, and will be decided in the way which has just been described.

As will easily be understood, the explanation now given is, broadly, the same as that of the results of an unsymmetrical cost of carriage of imports and exports. In this case an excess will also arise in the balance of indebtedness, so long as the rate of exchange represents the relation of price levels; and, consequently, in this case a change will also be necessary, either in the rate of exchange or in the relative price levels.

One very important point has still been left out of consideration, however. For it is not necessary, as the foregoing might perhaps make us believe, that all mature debts which are created from transactions between countries will also lead to a corresponding supply and demand of bills, i.e., create compensating transactions to the same value. What has been left aside is, in other words, the influence of foreign credits, a factor of enormous importance, not only to the economic life of countries in general, but also to the rate of exchange in particular.

Supposing an excess of debts due to or by a country, i.e., a want of equilibrium between supply and demand at the old rate of exchange, the possibility of credits will create a third method of handling the situation. This consists in the excess amount being credited to the debtor country, bills upon it not having been brought to the market by the creditor country. Equilibrium is, thereby, instantly restored to the exchange market, without any alterations, either in the rates of exchange or in relative price levels. The debtor country, in this case, will then have no need for either a decrease in the foreign valuation of its currency or a lowering of its internal price level; and, correspondingly, the creditor country is able to maintain exchanges and price levels unaltered. Clearly, this will mean that credits to foreign countries either lead to a lower foreign valuation of the currency or a lowering of the internal price level, as compared with what would have been the case if no credits had been given; and, inversely, foreign credits to a country will raise either the foreign valuation of its currency or its internal price level.

In the case now discussed, an excess of debts owing to a country is regarded as the initial position; it is prevented from influencing exchanges or price levels through the giving of credits which wipes out the excess or, more properly speaking, changes the excess of debts

which are mature into those that are not. In this case, the credits given are a one-sided transaction, as viewed from the moment when the excess of debts does already exist; for the creditor country is then alone in making a new move. A fundamentally different situation is created if a country is giving new credits in a moment of equilibrium. For in this case a two-sided transaction is taking place. On the one side, the country giving credits creates new debts for itself; for, through the credits given, the debtor country is being put into a position which allows it to draw upon the creditor country. But, on the other hand, the creditor country is delivering new goods or services to the debtor country; and in the end the value of this will exactly equalize the amount of the credits or new debts owing by the creditor country. How this is effected is a complicated question which would take us too far afield. It is enough to say in this place, it follows from what has just been demonstrated, that there is no absolute necessity that such credits should influence exchanges and price levels at all, though their influence upon the demand for goods from different countries will make such an influence probable. From the point of view of our subject, it is the first case, that of credits wiping out an excess of debts due to a country, which is of importance.

Clearly, however, the giving of credits has its own causes; and though these will be treated more fully in connection with the period when credits became more extensive, there is one of them which must now be pointed out in this connection. It refers to the influence of the position of the rate of exchange itself. If the valuation of the currency of another country is abnormally low, in the estimation of your own country, e.g., Sweden, that is, if the depression in this valuation is considered as temporary, this will make Swedish creditors likely to extend the debts or bills due them from the other country, which is equivalent to giving a credit; and an equilibrium may then take place on that point. If, on the other hand, the opinion in, say, Sweden is of the opposite nature, the rate of exchange upon the other country must be *more* at a discount, so that an increase in exports from it or a decrease in imports to it can be created, to an extent which balances demand and supply of bills or mature debts due to and by the country. If such a development for some reason is impossible—the enormous impediments to the movement of goods during the War is an instance of this—an enormous discount in the

rate of exchange may be necessary to make the Swedish owners of foreign bills willing to keep them, in the hope of a future rise in their value. A balance of supply and demand of bills, debts owing to and due from the country, is, at all events, indispensable and must take place at every moment, as surely as all debts must either be paid or not paid; and the second alternative is equivalent to a credit, whether willingly or unwillingly given. But it is quite clear that the conditions of such a credit are subject to change within the widest limits, and can, consequently, not be defined by any rules of universal applicability; it is quite as possible that credits may come in and prevent the most insignificant oscillations in the rates of exchange, as that enormous changes in the rate must take place before it will rise.

A summary of the fundamental ideas of this theoretical exposition may now be given, divided, for the sake of convenience into a series of theses.

A. In the total absence of cost in transmitting goods and services, not only the general level of prices, but also the prices for each particular commodity, will be the same in both countries, when all prices are computed on the basis of the exchanges. But, even in this case, an increased demand for the export goods of a country, as compared with its import goods, will influence the monetary system of the country, in the direction of increasing the amount of its circulating medium. The reason is, (a) from the point of view of general economic life that the national income has increased; and (b) from the point of view of the machinery of the exchanges, that exports would otherwise become incessantly greater than imports and an equilibrium consequently become impossible.

B. If the exchange of goods between countries cannot take place without cost, two new results will emerge.

(1) One of them is, that all goods will become much cheaper in the exporting country than in the importing one, proportionately to the cost of transmitting the goods. First, the identity of price for the individual commodities, in one country as compared with the other, will consequently disappear all along the line. But, second, the general price levels, compared, as before, on the basis of the exchanges, will not be the same in both countries, except under the supposition that the cost of transmission is absolutely symmetrical, i.e., influ-

ences import and export prices in the same way. In all other cases, the relation will be another one, namely, a higher level of prices in a country the import goods of which have to pay a higher cost of carriage than the export goods, and vice versa. Otherwise, the international exchange of goods will (a) not be in equilibrium; or, (b) as might also be said, foreign bills will otherwise be too highly valued in the country having higher cost of carriage for imports than for exports, as so much is lost from the value of its import goods before that value reaches the country; consequently less will be gained by holding a claim for foreign goods.

(2) The second consequence of the existence of cost in foreign trade is the fact that not all goods are exchanged. Consequently, in any country many prices are not fixed internationally, but only limited between boundaries created by the cost of transmission. A rise of prices for the export goods of a country, created by an increase in foreign demand, will (a) then react upon the prices of the agents of production, and through them upon such domestic goods as are not exchanged internationally; which means that the price level of the country will rise as compared with that of foreign countries, always computed on the basis of the exchanges. The same result will (b) follow if the equilibrium of the exchange of goods is made the starting point of the reasoning; for without such a rise in prices in the country in question—the export goods of which have met with an increased foreign demand—the value of its exports will always exceed that of its imports.

C. This situation is fundamentally the same, whether the Gold Standard or paper money prevails. The only difference is as follows. Under the Gold Standard, the foreign exchanges are practically immovable, and equilibrium must consequently be created through changes in the relative price levels; under paper money, on the other hand, the exchanges are as moveable as the price levels, and equilibrium may consequently be brought about by changes in either, or in both.

D. (1) International credits, wiping out an excess of debts due to a country, mean that such a country will receive less goods in exchange for its own; such credits will consequently be able to neutralize, in part or altogether, the effects upon foreign exchanges and price levels which would otherwise result from an increased foreign demand for the export goods of the country. (2) This conclusion is

altered, however, in so far as the willingness to give credits is in its turn influenced by the situation of the exchanges or the currency; for willingness to give credits may be effected through the fact that foreign currencies are at a discount, if this is regarded as an abnormal or a temporary situation.

E. The idea that the point of equilibrium for the foreign exchanges is to be found at the quotient between the price levels of the different countries is consequently untenable in almost every case pertaining to actual life, as is perhaps best illustrated by the differences in price levels existing between different parts of the same country, with a common monetary system and exchanges always at par. The statistical evidence adduced for the thesis will, in the best of cases, prove no more than the fact that the relations between exchanges and price levels have remained the same as they were at the starting point; it is by no means able to prove that the situation at that point was ruled by the proportion between the price levels.

Price Levels and Rates of Exchange: the Application.

If the results of this rather lengthy theoretical digression be now applied to the subject at hand, it will directly follow that the higher foreign valuation of the Swedish monetary unit, compared to relative price levels, must be expected to have its cause in two different factors; one of them, the higher costs or greater difficulties for imports than for exports; and the second one, an increase in the relative demand for Swedish export goods, as compared with the Swedish demand for foreign goods. Demand in this case must mean effective demand, which takes place under the conditions at which the goods can be bought. On the other hand, Swedish credits to other countries will weaken this influence, because there will not be the need for so great a fall in the valuation of foreign currencies, or so great a rise in the Swedish price level, as would otherwise be necessary in order to create an equilibrium in the exchange market.

Even if this be a true explanation, it must be admitted from the outset, however, that statistical verification of the results meets with unexpected difficulties.

With regard to the factor which consists in the greater increase of cost of imports, as compared with that of exports, the difficulty is only a statistical one, it is true, so far as it relates only to cost of carriage in a restricted sense; but, on the other hand, the scantiness

of materials creates obstacles upon this point. Under this head we must also add that the obstacles to imports are partly, and perhaps even principally, of a nature that cannot be measured, because it consists of an embargo which prevented the imports of foreign goods into Sweden. So far as the Swedish embargo upon exports was milder than that of the belligerents in the opposite direction, this constituted a one-sided cost of carriage, and the difference was very great, though not measurable in figures.

With regard next to changes in the foreign demand for Swedish goods, the gauge nearest to hand would seem to be the tendency of the prices of Swedish export goods to rise relative to the general price level, because a greater rise for Swedish exports would seem to mean an increased foreign demand for them. As will easily be understood, this does not mean that the rise in prices, in itself, would increase the foreign valuation of the currency, but only that the increased foreign demand, at the same time, would create higher domestic prices for export goods and a premium on bills upon the exporting country. It would, however, in this case, become necessary to verify this increased foreign demand in another way, e.g., through market reports; for, if the rising prices for our export goods were the result of, say, increased cost of production and a corresponding fall in foreign demand, the rate of exchange upon Sweden would not be more favorable to this country than before, as compared to relative price levels.

On the other hand, it is, consequently, also possible that a *fall* in the prices of export goods, at an unchanged foreign demand, might explain a more favorable rate of exchange upon Sweden, relative to price levels. For this would mean that other countries would be able to acquire our export goods on more favorable terms than before, and it might, therefore, be able to increase the total demand for Swedish goods and the total amount of bills upon Sweden which were required, and might, consequently, influence exchanges in that direction. During war-time an absolute fall in prices was out of the question, it is true; but even a smaller rise in the prices of export goods than in those of other goods would mean the same thing, and might, consequently, be the reason for a higher foreign valuation of Swedish currency than before, relatively to price levels. That, consequently, relative rise and fall in prices could both alike create the same result with regard to the exchanges, rests upon the fact that

the rise in prices which has been assumed would have been a *consequence* of an increased foreign demand, and not of less favorable Swedish conditions of production; while the fall in prices would *not* have been the result of a decrease in foreign demand, but of a change in Swedish conditions of production instead. If the fall in prices had depended upon a decrease in foreign demand, the result would have been more unfavorable, instead of more favorable, exchanges upon Sweden. In this case, as in the first, the character of foreign demand must, therefore, be considered.

In so far as, lastly, there had been a difficulty or an unwillingness on the part of foreign countries to pay for Swedish goods by foreign goods, a greater or lesser depression of the exchanges upon foreign countries would have been necessary in Sweden, in order to prevail upon Swedish exporters or their bankers to give credits. An excess of exports on the part of Sweden would, therefore, so far, be the reason for a high foreign valuation of the Swedish currency, if such a valuation had been necessary in order to call forth a continuation of an excess of Swedish exports or Swedish credits to the belligerents. Undoubtedly, the importance of this factor was, at the beginning, particularly great with regard to Germany, the exchanges upon which country had already been going against it in the autumn of 1914, as has already been mentioned.

As to actual facts for the period before the second quarter of 1915, they were as follows, so far as it has been possible to discover them:

Cost of carriage from the beginning is characterized by a greater increase in inward freights for coal than in outward freights for lumber (Diagram X). During the two last years of the War this disproportion becomes almost fantastic; but already available figures for 1915 show an index number for coal freights of 324 as against 239 for lumber, 1912-1913 equalling 100. Moreover, the figures for 1914 had already been influenced by this change, so that the tendency of this factor to raise the Swedish price level, as compared with the foreign valuation of the currency, becomes distinctly probable.

With regard next to the development in prices for such export goods as can be followed for the first three years of the War, the result is a situation which is reversed later on, i.e., a price level considerably *beneath* the general Swedish price level (Diagram VII).

Unfortunately, statistics for lumber are completely lacking for this period; but for three important groups the following index numbers may be given:

	1914		1915
	3d Qr.	*4th Qr.*	*1st Qr.*
Swedish wholesale price index	*111*	*120*	*135*
British wholesale price index	*106*	*108*	*120*
Export pig iron (in Swedish currency)	104	104	111
Mechanical pulp of highest quality (in Swedish currency)	111	111	115
Chemical pulp (strong sulphite) (in Swedish currency)	112	104	101

As these figures will show, the difference between the three export commodities here given and, on the other hand, the Swedish price level, is so considerable that the increase in the prices of the former goods rather falls behind that of the far lower British wholesale prices, on the basis of the Sauerbeck index numbers. There is nothing improbable in the supposition that these favorable prices have increased demand and, consequently, the demand for bills upon Sweden.

But, as has been said, this explanation holds good only on condition that the comparatively low prices for Swedish export goods have not been caused by a decrease in foreign demand. Broadly speaking, this condition must be said to have been fulfilled, though it is difficult to distinguish in market reports between the circumstances connected with simply nominal rises in price and quantitatively unchanged or increased demand; some influence from the war boom made itself felt even during this period. Some comparatively unequivocal statements from the trade journal *Affärsvärlden* are given below.

August 26, 1914: Great demand for sulphite in England; considerable quantities sold. Need for mechanical pulp general.

September 2: Demand for pulp for news-print in England greater than supply [a characteristic expression]. Large deliveries of mechanical pulp very welcome. Very lively demand for sulphite.

September 9: Shippings of mechanical pulp from the Baltic in full swing; very little unsold. Every ton of pulp and paper sure of purchasers at considerably increased prices.

October 21: Sweden very busy with lumber deliveries. Great decrease of mechanical pulp on account of drought in the North; no stocks of chemical pulp.

October 28: Set-back in the delivery of lumber on account of German seizures of lumber vessels. Mechanical pulp: inquiries from France, whence there had hitherto been none.

During the following month exports of pulp were mainly non-existent—though at the same time it was observed that stocks of mechanical pulp were smaller than in the previous year. But emphasis was laid on the great sales of lumber since the German contraband measures had been revoked. Stocks in Overbotten, the most northerly district, were nearly exhausted on November 25, December 16, etc.

On the other hand, many otherwise important export commodities were lacking. Iron ore was subject to a distinctly diminished demand, and for lumber the German contraband policy sometimes created difficulties which resulted in its becoming impossible to meet the great English demand in the Baltic. Even upon considering these facts it is hardly doubtful that effective foreign demand for our export goods had, at least, not diminished but had probably increased. It is, then, only natural that the low prices for Swedish export goods should create a correspondingly increased demand and a high foreign valuation of Swedish currency.

The demand for import goods is considerably more difficult to estimate, especially as the needs of Sweden had small influence upon prices. But the small amount of imports, as compared with exports, appears to mean, in part, that the Swedish demand for foreign goods had not increased to the same extent as the foreign demand for Swedish, and partly—at this time probably in large part—that the Swedish demand was unable to make its influence felt, because the goods were absorbed by the belligerents.

A more direct and, therefore, more hopeful way for ascertaining this might appear to be a comparison of changes in the relative prices of import and export goods, as this would seem to express the relative changes in the demand for the two groups. But this is made extremely difficult, for an exclusively *statistical* reason, by the rise in freight rates; this must be kept altogether distinct from the *real* influence caused by a change in the relations between inward and outward freights. For as both import and export prices as given in the statistics of foreign trade refer to the value in Swedish ports, this rise in freight rates will, in itself, cause a change in the figures

of statistics in the direction of an increase in import prices and a fall in export prices. As the rise in freights during the War was greater for import than for export goods, the rise in the former will, on this account, be greater than the fall in the latter, it is true; but a change in their relation, which is independent of changes in demand and cost of production, will none the less have taken place in the statistical figures.[9] Only if the *statistical* prices of import goods have risen little more, or even less, than export prices, may the figures be considered as proving a *really* smaller increase in the demand for import than for export goods. For 1915 there is little to be learned in this way; for import prices rose by 23.8 per cent and export prices by 17.4 per cent. For the years that followed the method will become far more applicable, as will appear later on.

Coming at last to the relation between the total values of imports and exports, there can be no doubt as to an excess of exports, and, consequently, an export of capital from the begining of the War. Figures for values are lacking in the monthly trade statistics of Sweden, it is true; and they cannot now be reconstructed. But the annual figures point to a rather indisputable result. After having shown a constant excess of imports before the War—in 1913 it was kr. 29,200,000—the balance of trade turned even in 1914, and showed an excess of exports—one of kr. 45,400,000—which afterward rose by leaps and bounds. When it is remembered that these figures include the high import freights, while export freights by sea are altogether excluded, the excess of exports with regard to the value of the goods themselves is beyond doubt, from the very beginning of the War. With regard to the part played by the different countries, again only annual figures are available, but they indicate the situation from the beginning of the War. During 1914, as a whole, the changes as compared with the year before were about the same for Britain as for Germany it is true. They were, respectively, kr. 43,500,000 and kr. 47,100,000 for increase of exports as against imports. But the figures for 1915 show an enormous difference between those for the two centuries. As against 1914 the rise of exports over that of imports had increased in the case of Germany by kr. 299,600,000, compared with only kr. 41,500,000 for Britain. And it

[9] The influence of this inequality of inward and outward freights upon prices in the world's markets is here left out of account.

is natural to feel there was such a tendency from the outbreak of the War.[10] The large credits here shown to have been granted by Sweden may have been caused, to a certain extent, by a low state of foreign (German) exchange in Sweden; and, so far, this is another explanation of the development which was taking place.

Though the situation during the first period of the War is, consequently, far from clear, we have shown that there was nothing paradoxical in the development of Swedish monetary conditions during that time.

[10] The difference between the development of inward and outward freights, noticed before, undoubtedly increased import figures for Britain much more than for Germany, but certainly not enough to explain even the greater part of such differences as those just given. The relations between Britain and Germany, in regard to Swedish foreign trade, were altogether reversed in the latter years of the War, so that in 1918, e.g., trade with Germany gave an increase, in excess *imports*, of kr. 44,600,000, as against an increase, in excess *exports*, of kr. 73,100,000, in the trade with Britain, both being compared with 1913.

CHAPTER III

THE RETURN TO THE GOLD STANDARD
(March, 1915, to January, 1916.)

The Increase in Foreign Valuation.

In the beginning of March, 1915, the discount on Swedish currency, as against gold and good foreign currencies (dollars, florins, sterling and French francs), had gone farthest; and now the current set in in the opposite direction. The genuine maximum for sterling —19.65—did not come after the beginning of the month; and from March 10 to March 18 the nominal quotations of the Riksbank were also lowered for all the currencies just mentioned. The last impulse was given by the recall of the German contraband rule against lumber; and at the end of the month the great reversal followed, as usual much more strongly than was shown in the official and nominal quotations. Thereafter, this new movement went on, broadly, up to the beginning of November, 1917, that is, for no less than two years and a half, with only some rather short lapses, as will be shown in the following narrative. In the second part of May, 1915, parity had already been regained as to French francs; at the beginning of June, Swedish currency stood at par as against sterling, though there was a lapse for a month and a half in July and August. And, about the middle of November, the situation became the same for dollar exchange, so that at the turn of the year 1915-1916 only florins remained at a premium, that currency losing its position for good in March, 1916. Consequently, there could, after this, be no further talk of a depreciation of the Swedish monetary unit as against gold.

But there was more than this. No foreign currency remained at par. All continued their downward path, i.e., Swedish currency *appreciated* as against foreign currencies, and acquired the position of a currency which stood highest, as compared with parity, among those which were quoted in Stockholm. At the turn of the year of 1915-1916, the krona stood, on the basis of the official quotations of the Riksbank, at a premium of 3.6 per cent as against dollars, and at 6.4 per cent and 16.6 as against sterling and French francs, re-

spectively. If the Riksbank had not allowed its foreign assets to increase almost without interruption, from about kr. 70,000,000 in the middle of February, 1915, to kr. 178,000,000 at the end of the year, this tendency to a fall in the value of foreign exchanges would probably have been even greater.

The Riksbank accepted the consequences of the new situation, in so far as again making notes convertible after the beginning of 1916. The safeguard against a new fall as against gold was the weaker, however, because the exporting of gold was still prohibited, and no relation between Swedish currency and the international value of gold was, therefore, established. Nominally the Gold Standard was reëstablished, however, as the currency had only been free downward and not upward; it was only the convertibility of notes into gold, and not that of gold into notes, that had been prohibited. It might, therefore, be expected that the Swedish monetary unit could not have risen above par as against gold.

Such being the case, the first question arises, how was it possible to do what had, as a matter of fact, been done, i.e., keep Swedish currency at a premium against currencies which were convertible into gold, as such a condition, according to the ordinary theory of the Gold Standard, would have resulted in an influx of gold, which would have continued until the premium had disappeared.

The explanation consists, first, in this, that a real, *bona fide* Gold Standard hardly existed anywhere. Any complete certainty of an influx of gold was, therefore, almost out of the question, though Swedish currency might appreciate as much as it liked. So far the maintenance of the appreciation is hardly in need of explanation. The situation was not quite as simple as that, however. For, on the other hand, the Gold Standard was, after all, so much in force in several countries that exports of gold to Sweden were at least near at hand. And not even in countries which had completely given up the convertibility of their notes could it be concealed from governments indefinitely, that gold at the existing rates of exchange was the cheapest form of payment for goods, which they could not possibly go without and which could not be had on credit in unlimited amounts. It took time for the belligerents to overcome their superstition with regard to the gold safely locked up in the vaults of the banks as a financial and political tower of strength; but the claims of reality made themselves heard at last, and at that moment the

exports of gold to Sweden had to begin. Sweden, on her part, was bound by her laws regulating currency and the Bank, to accept gold at par, and could, therefore, not avoid receiving what might be sent to her by other countries.

This situation became of importance after the latter part of 1915. According to the Bank returns, the gold reserve had increased during the last three weeks of the year by kr. 11,300,000. In the beginning of the following year a stronger movement took place, so that the first return for February, 1916, showed an increase by kr. 47,000,000 from December 1, 1915, an increase of about 41½ per cent, that is, relatively, a very considerable one. Connected with the heavy inflow of gold in January, 1916, there was, undoubtedly, a considerable decline in the premium upon the Swedish currency at that time; sterling moved from 17.00 to 17.45, dollars from 3.585 to 3.66, French francs from 61.25 to 62.80. The gold obsession of the belligerents having been somewhat undermined, the Gold Standard, consequently, made its normal influence felt in the matter of Swedish currency.

The Causes of the Reversal.

The question next arises, to what causes was the alteration in exchange rates due? The answer is first of all this, that the change did not go with any reversal in the development of internal monetary conditions. The value of money continued to fall, though it must be added that the fall was a little slower during the rest of 1915; while the last quarter of 1914 and the first of 1915 showed, in each case, an increase over the preceding quarter of 8.1 per cent and 12.5 per cent, respectively. The increases during the three remaining quarters of 1915 were, respectively, 5.9, 2.8, and 5.4 per cent, when computed in the same way. But this is equally useless as an explanation of the change in the foreign valuation of the currency, for the British price level moved in the same direction. During the whole of 1915 the ratio between the increase of prices in Sweden and Britain remained almost the same, or even moved a little to the disadvantage of Sweden. In other words, the real exchange upon London had moved still further from the ratio between the increases of the price levels. While the actual rate of exchange for sterling in the last quarter of 1915 was at a *discount* of 4.7 per cent, the relation between the rises of price levels would have indicated a *premium*

on sterling of no less than 14 per cent (Diagram IV). The difference was a striking one.

So far as one can judge, the principal explanation is to be found in the ever increasing demand for Swedish export goods. The excess of exports for 1915—according to trade statistics which refer to values in Swedish ports—was nearly kr. 174,000,000, as against barely kr. 45,500,000 the year before, in spite of the fact that the rise in import freights continued. Quantitatively, that is, in bulk, exports for 1915 exceeded imports by 75 per cent, the corresponding excess for the year before being no more than 60 per cent. All the important export goods, such as lumber, pulp, iron and steel, and iron ore, showed far higher figures than 1914, the second and third of these groups even higher than 1913. It is difficult to make the corresponding computation for imports, it is true, on account of their far greater variety; but already the totals just given show small as compared to exports. An import of American raw cotton, which was enormous according to normal Swedish conditions, may have been altogether without influence upon the balance of payments, because it was made for the account of Germany, according to an agreement with the Allied Powers, and its influence must, in any case, have been only temporary as it disappeared before the third quarter of 1915. The net imports of cotton were also doubled, it is true, but this meant no greater increase in imports than some kr. 20,000,000.

An investigation of concrete conditions confirms this result. As has already been mentioned, the reversal in the exchange market occurred just after lumber had been taken off the German contraband list; and the consequence naturally was an increase in lumber prices in Sweden, and a fall in England, i.e., just what might be expected to raise the foreign valuation of Swedish currency, as compared with its internal purchasing power. An export of horses from Sweden to Germany, which was our compensation for the German concession, must have worked in the same direction. These occurrences in March and April, 1915, were followed by the same tendency, unchanged or even strengthened during the rest of the year. In the beginning of August a keener demand for Swedish lumber was observed, as a consequence of the difficulties of navigation in the White Sea; and the abolition of the German import duty for pulp favored its sale more even than before. Two months later there

is mention of "new and very eager buyers" of sulphite in Germany, Austria, Spain, and Italy. In the beginning of December stocks in the northern pulp mills were said to be more completely exhausted than ever before. Three weeks later a "wholly unique" demand for lumber for prompt delivery in England was reported; at the end of 1915, 150,000 standards were sold, as against 50,000 the year before. Pig-iron exports were rightly called a record; they were more than 50 per cent above those of 1913. The foreign demand for Swedish tonnage, which rose incessantly during 1915, worked in the same direction. All these factors were strengthened at the beginning of 1916.

Glancing finally at developments in export prices, a strong rise appears in the case of pig iron, not only absolutely, but also in relation to the general Swedish price level; the rise of pig-iron prices reached that of general prices in the third quarter of 1915, and afterward greatly exceeded it. For chemical pulp the situation was about the same, though the development was a slower one; the rise lagged a little behind throughout the year. The general trend is shown in Diagram VII, but may be here summarized after the same method which was used for the first period:

		1915	
	2d Qr.	*3d Qr.*	*4th Qr.*
Swedish wholesale price index	*143*	*147*	*155*
British wholesale price index	*128*	*128*	*136*
Export pig iron (in Swedish currency)	131	143	179
Mechanical pulp (in Swedish currency)	118	126	131
Chemical pulp (in Swedish currency)	104	126	148
Lumber (in Swedish currency)		117	128

It will appear from this that two out of the four groups now had risen considerably more than the British index number. But what has been said before undoubtedly shows that the rise in price of Swedish export goods was caused by a strong increase in foreign demand; for just those groups which showed the greatest rise in prices also increased most quantitatively. It is, therefore, only natural that the strength of the foreign demand could create a higher valuation for the Swedish currency even at those high prices, which were caused by the increased demand.

Just as it was considered in the case of the first period which ended in March, 1915, that a depression of the exchange upon Ger-

many might have been one of the causes for the excess of exports, so it is only natural to expect an ever increasing range for this influence, as one currency after another became at a discount in Stockholm; it is undoubtedly the case that this exchange situation, even with regard to the strongest currencies, contributed to the tendency to grant foreign credits, or to extend such as had already been granted, i.e., to leave foreign assets undiminished. And, so far, there is reason for considering a discount in the foreign exchanges all along the line as a necessary condition of credits, which the belligerents could hardly go without. This, then, becomes a further reason for the position of exchanges.

The Causes of the Rise in Prices.

Coming now to the question of the causes of the internal rise in Swedish prices, it holds good for this period, as well as for the foregoing one, that a rise in note circulation had little to do with it. For, as will appear from Diagram II, no increase at all occurred in the note circulation during the second and third quarters of 1915, when monthly variations are eliminated. Afterward an increase set in, it is true; but even that was in the beginning rather insignificant, the index of circulation being 133, 135, and 136, for each of the last three months of the year, as against 130 as the average for the first three. Later developments made it clear, however, that a new increase had begun, and the figure 139 was reached in January, 1916. Though the rise in prices was rather moderate for war-time conditions, the difference between that rise and that of circulation, consequently, increased a little.

This difference no doubt, to a certain extent, was caused by an increased velocity of note circulation, as was only to be expected under the influence of rising prices; the introductory chapter will have shown that the corresponding result was reached even under the conditions of far smaller changes in prices before the War. But besides this there probably arose during 1915 an increase in circulation outside the note issue, through more frequent payments by check. Current accounts, which hitherto had played a very subordinate part in the deposits of Swedish private banks, now had developments unknown before. Their increase during the five war-time months of 1914 was 21.6 per cent, and during 1915, 36.2 per cent

of the figures for the end of 1914; that is, from the outbreak of war to the end of 1915, 65.5 per cent or nearly two-thirds, against an increase in the total deposits of the private banks of only 6.7 per cent, or, on a percentage basis, about one-tenth of that of current account deposits. Considering the general development of monetary conditions during the War, it seems likely that these spectacularly increased amounts on current account had been used for payments by check to a greater extent than before. Lastly, there is the possibility of an increase in credits preceding the increase in circulation, which did not take place before the last quarter of the year. For it is both usual and natural for some time to elapse before credits are embodied in notes; but even before that, credits can create a new demand which causes a rise in prices before the goods have been paid for.[1]

On the other hand, no reliable measure can be found for an influence from the other side of the "equation of exchange," i.e., from supplies of goods, though such an influence was possible at this time. On a first view this appears to be out of the question, for according to official calculations of the volume of industrial production, the quantity for 1915 was even greater by 4 per cent than the figures for 1913, with decreases only for stone and lumber; and though the harvest, on the basis of food-value units, was smaller than in 1913, it was about as large as the average during the decade before the War. But there are important items to counterbalance this. For it is almost necessary to suppose a decrease in the available amount of goods within the country on account of the heavy excess of exports; in comparison with 1913 this represented a value of no less than kr. 200,000,000. Another factor expected to work in the same direction was that the productive powers of Sweden, as well as foreign countries had, during 1915, been directed into less productive channels, with reactions upon the quantity of goods available in Sweden, though this cannot be shown by figures. It is not, however, reasonable to expect that the decrease of goods had any more considerable influence upon the rise in the Swedish price level for 1915.

[1] It is difficult to find statistical verification for this important factor. But it may be mentioned that the credits given by banks, on the two accounts of importance in this connection, show a marked increase during the months May to July; between the end of April and the end of July, 1915, the rise was kr. 60,000,000, or nearly 8 per cent.

The Effects of "Redundant Currency."

In spite of the very insignificant new increase in circulation and the moderateness of the rise in prices, there can be no doubt that the results of an excess of currency had begun to show during the year, though not yet all along the same line, and not nearly to the same extent as later on. Before the idea of a paralyzed economic life had had time to disappear altogether, the so-called war boom, of deplorable memory, was in evidence. In the beginning it was viewed with surprise and warnings; but in time it was more or less accepted as a part of the natural order of things. The war boom had more origins than one, as is shown in the General Survey in this volume; but the most important reason probably was the upheaval in monetary conditions.

The new tendency was rather slow to make itself felt on the Stock Exchange. And this is natural, in so far as quotations might be expected to have been influenced by the temporary character of the boom; for a short war was at that time generally taken for granted; but the more important, and the real reason probably, was not the coming peace, but the insecurity caused by the War itself, as the advantages of *insecurity* for numbers of concerns engaged in industry, commerce, and shipping in particular, became clear only after some time. Diagrams XII to XIV give information with regard to the turnover on the Stock Exchange and the flotation of the new shares, in nominal amount as well as when reduced to pre-war price levels; they need very few words of explanation.

Stock Exchange business was very hard hit during the war months of 1914; from the outbreak of war to November 3, the Stock Exchange was even closed. And when it had been reopened, remnants of the moratorium held back business. The issues of new capital during the latter half of 1914 also remained at a point which was about two-thirds of that for the first half year and about one-half of that for July-December, 1913. The year 1914 ended in losses for all shares in the ordinary Stock Exchange list. This must be emphasized because there is at present a tendency to overrate the influence of monetary conditions upon good and bad trade; even at this time such an enormous rise in prices, according to peace-time standards, as that of 25 per cent had occurred in only five months.

Only at the end of February and the beginning of March, 1915,

did the Stock Exchange situation show any improvement, and this, while causing surprise, was held to be an outgrowth of the discontinuation of the moratorium; then, after an interruption of two weeks, business became lively, with several increases in price, and new applications for capital in April and May, caused by the striking off of lumber from the German contraband list. As early as the beginning of August there was talk of a boom beginning, though it had been going on in Denmark for several months before; and only after another month did stock quotations rise above the pre-war level; in fact, not even then, if the change in the value of money be considered. A new increase went on during the greater part of October; but in spite of all these repeated increases the result remained a small fraction, not only of what it was to be, but also of pre-war conditions, and this even irrespective of the fall in the value of money. The total transactions on the Stock Exchange for the complete year of 1915 were no greater than those of the year before; they were between one-third and one-fourth of those of 1913, and less than one-sixth of those of 1912. True, new issues of shares were, irrespective of the fall in the value of money, on a level with the figures for 1913 and not a little above those for 1914. But, in general, the Stock Exchange during 1914 cannot, even upon paper, be said to have reached, or at least to have exceeded, the figures for the close of the peace period, which had been marked by a mild depression.

None the less it is clear that the note circulation, which had increased by 30 per cent, and the rise in prices, which was even greater, would make its influence felt with regard to applications for new capital. Even in June it was said in business parlance,—which in this case was really correct—that the money market was richly provided with available means. Except in increased banking deposits they were principally invested in bonds, as the issues of both, during 1914 and 1915, were about double those of the years before. A comparison between issues of shares and bonds is also characteristic. The figures are in millions of kronor.

(*Values at par*)	*Stock capital subscribed*	*Bonds issued*
1912	147.8	94.8
1913	217.6	69.8
1914—first half year	91.4	47.7
1914—second half year	62.2	90.5
1915	206.6	270.5

The predominance of stocks was, consequently, very great during the last years of peace, while bonds had already taken the lead, during the second half of 1914 and during 1915.

This must be considered characteristic of the situation during the *first* part of the War. For, on one hand, it shows important results due to the new currency issues; but, on the other hand, it also shows that the real import of the fall in the value of money, which was going on, had not become at all clear to capitalists, or at least was not by them considered likely to continue in the future. For, if the value of money is going to fall in the future, long-time bonds are the most unfavorable of investments; and when such a development is taken into account, capitalists consequently prefer, more or less consciously, the opposite form of investment, or stocks, which are part and parcel of interests owning debts in money and falling in value with money. This contrast creates a very important difference between the earlier and the later years of the fall in the value of money; to some extent it is equivalent to the contrast between a belief in a speedy return to pre-war conditions and that in a perennial boom. The use of the home loan market for the needs of the State, on account of an increase of expenditure, and the impossibility of borrowing in foreign countries, was, it is true, one of the most proximate causes of the increase in bond issues; but this factor remained the same throughout the War; and, besides, it would have been of no power, unless capitalists had cared for that particular form of investment.

Foreign Credits.

From the point of view of the connection between the war boom in a restricted sense—i.e., an influence created by a stronger demand for goods on the part of belligerents and their treatment of commercial intercourse—and the fall in the value of money, the greatest interest attaches to that particular form of neutral investments which is called foreign credits and which up to this point we have chiefly dealt with in connection with the theory of foreign exchanges. Many of those forms of investments which have just been mentioned were, as a matter of fact, foreign investments, because industrial and other concerns, who disposed of the new flotations, were thereby enabled to export or carry goods on credit. On the other hand, it is quite as clear, as well that this application of the

new capital was not the only one, as that credits might also be given to foreign countries directly, without first assuming the form of an issue of shares or bonds.

Credits might take many different forms. The excess of exports was in itself in substance a foreign credit and, when freights were added, a rather exact expression of its amount, in so far as the country had no interest to pay to, or receive from, other countries; though it must be added that the trade statistics for import and export values were, at this time, more questionable than usual and made this criterion considerably less exact than it would otherwise have been.[2] For this excess consisted of values, in the form of goods and services, on the part of Sweden, without any immediate counter value of the same sort on the part of foreign countries and, therefore, consisted of credits or exported capital—two conceptions which there is little reason for keeping separate in this connection. The form of these transactions was quite variable, however; and it is of particular interest to try to learn whence the initiative of the credits came.

To a great extent goods were sold on the exporter's credit and afforded to Swedish industrialists foreign assets, which they sometimes kept and sometimes transferred to their Swedish bankers, who in their turn gave Swedish money instead. In these cases credits arose through the action of exporters, successively, and without formal agreement on either side. In other cases the Swedish banks took the initiative, through the granting of formal credits to foreign countries, which afterward were used for buying or paying for Swedish goods; in such a case, exporters themselves were unconscious of selling on credit, because it had been given to purchasers at an earlier stage.

As to both these categories, exporters and banks, it holds good, however, that they received a corresponding asset in foreign parts; and this might take the form of a promise to pay which was transferred to Sweden. Economically speaking, this was, practically, the result, even if goods were paid for in gold; for in 1915 gold might be considered in the light of a debt by foreigners which was always

[2] Under the system of computing the values of imports and exports which was in use in Sweden, as in most countries, the *whole* amount of freights must be added to export values, because import values are given at the place of export, or f.o.b.

due. Much more important, however, was the payment in the form of securities, which became a principal factor in this connection. The importation of securities, in its turn, took two different forms, as it might consist of foreign promises to pay—principally war bonds—or it might be repurchased Swedish State or private bonds which had been placed abroad before the War; to the second category must be added an insignificant amount of Swedish stocks. It need not be explained that all this was equivalent to credits, in the sense of an exchange of delivery of goods for promises to pay, though these promises were in greater part Swedish promises that were now taken back. Besides all this, there were ever increasing instances of the sale of goods for real values on the part of the buying country, but in such a form that nothing was sent to Sweden, because they consisted of real estate, stocks of goods, or other foreign values which could not be, or were not allowed to be, transferred to Sweden. This was a foreign investment, though not a foreign credit; but at least for the moment the result was quite the same as that of a credit.

Lastly, the importation of securities might be at the root of the whole thing, in the case of Swedish capitalists, or banks, desirous of procuring securities from abroad on the prevailing conditions, which at least seemed to be favorable; in this way Sweden began by being a debtor. From the point of view not only of exporters, but of their bankers, too, goods were then not sold on credit, because credit had been given by the purchase of securities.

The result of credits to the economic life of Sweden in all these cases was the investment abroad of the savings of the country. On the other hand, it was not a foregone conclusion that this would react upon the Swedish monetary system; this was dependent upon many different factors. It has been shown before that credits to foreign countries depress prices within the country, in so far as the equilibrium of the exchanges falls to a lower price level for the creditor country, as compared with the debtor country, than would otherwise be the case. In consequence of this, foreign credits under a fixed rate of exchange, i.e., a Gold Standard, will lower the prices of the creditor country. Under a changeable value of exchange, e.g., paper money, the value of foreign currencies would be raised by the giving of credits; and in that case an increase in the price level of the creditor country, e.g., Sweden, is *possible*. In this connection it

is more necessary to consider, however, how far credits to foreign countries react upon the internal monetary policy of the home country. If this policy is carried out on such lines that the total demand for credit is, by a rate of interest adapted to it, limited to the same amount as that of the total savings at disposal, no reaction upon the monetary conditions of the country will take place. But if the rate of interest is kept at a lower point than that which is needed to handle the new demand for credit, the result must invariably be an increased amount of money and a rising price level.

So far as exporters were themselves financing their exports on credit, the risk of influencing the value of money was not of the first magnitude; for they had to fall back upon their own resources, perhaps principally upon exhausting their stocks. When, on the other hand, the banks gave credits to exporters, for the purpose of their foreign transactions, e.g., by discounting the foreign bills which they had received in payment, the credits of the banks were increased at that point; and as the monetary system was held down only by the weakest of ties, it was possible that the consequence might become an inflation of the total credits of the banks, which through the aid of the Riksbank, might result in an increase of note circulation, or might directly bring about new payments by check. It must be emphasized, however, that such a consequence was by no means inevitable, for it was possible for the banks to restrict credits for home purposes, and thereby make room for the new credits to foreigners; and, inversely, it was also possible, though not quite so easy, for exporters or buyers of securities to ask for increased credits from the banks for internal purposes, if the banks declined to finance their credits to foreign countries.

The thing most difficult to avoid was, finally, influencing the value of money by importing gold, when the situation had become what it was now, i.e., the purchasing power of gold itself was incessantly diminishing, and a country, in spite of a rising price level might, consequently, have a currency which had appreciated as compared with gold. For gold importing must continue up to the point where the currency of the country would drop to gold parity; and it was most difficult to prevent gold from putting into circulation at least the corresponding amount of notes.[3]

[3] The monetary policy of the United States during recent years has shown the possibility of avoiding this consequence; but, for a smaller country, it must be considered to be out of the question.

The development, the causes of which have now been given, must, in time, become of very great importance to Swedish monetary conditions. During 1915 its influence was not very important, however; for as has been shown, the new note circulation principally consisted of those new notes which had been created just after the outbreak of war, supplemented by an increase in the velocity of circulation, and possibly by some other forms of currency. Credits to foreign countries were, therefore, principally the result, in part, of an earlier increase in circulation, and, in part also, of the new prospects of gain which this particular form of investment appeared to hold out when the foreign exchanges were at a discount all along the line, and when, at the same time, it was generally believed that they would come back to their old parities in Swedish currency in the near future.

It is certainly impossible to obtain the exact figures for the amount of capital exports, but the best basis is found in the amount of excess of exports and of freight income earned by foreign trade, as has already been said. From a knowledge of these facts, with some additions, it is possible, also, to form an impression of the different routes which capital exports followed.

In the case of 1914 it is, however, impossible to make a distinction between the peace and the war periods; the figures for the whole year must be used. The excess of exports for the year has been put at kr. 45,000,000, and freights at kr. 125,000,000, the total being about kr. 170,000,000. From this must be deducted, however, the expenses of shipping in foreign ports, for which, it is true, all exact figures are lacking, but which have been computed at 31 per cent of the freight income for some years after the War. Making use of this relative figure the deduction will be kr. 39,000,000; and the net interest on the foreign debt of the country may be put at something like kr. 60,000,000, making the total deduction, consequently, about kr. 100,000,000, which limits the net capital exports for 1914 to about kr. 70,000,000.

During 1915 the amount increased at a great rate. Excess of exports was put at kr. 174,000,000, freights at kr. 257,000,000, or a total of about kr. 430,000,000. Deductions, upon the same lines as before, would be kr. 80,000,000 plus 60,000,000, or kr. 140,000,000, the net capital exports being, consequently, kr. 290,000,000. No doubt many items on both sides are left out, such as Swedish incomes from transit trade and agencies, which, to an extent un-

known before, fell to neutrals; and, on the other hand, the costs incurred abroad by Sweden by reason of all the trouble and losses due to the commercial war. But neither of these things can be computed, though the credit item during *this* stage of the War was probably the greater. The amount of capital exports for the two years 1914 and 1915, *kr. 360,000,000*, may, consequently, safely be considered as a minimum. For a country which had had net imports of capital almost without interruption before the War, with the single exception of the last three years of peace, this meant a very considerable bleeding. On the basis of average price-index figures for the two years, the net capital exports may be reduced to kr. 65,000,000 and kr. 195,000,000, respectively, or an annual average of kr. 130,000,000, in the pre-war value of money; against this stood, during the years before 1911, capital imports to about the same annual amounts.

In this connection, however, the forms of credit command as much interest as its amount.

Of particular interest were the purchases of securities from foreign countries, though they were, at this time, only a small fraction of what they were going to be. During March, 1915, as the currencies of the Western Powers first began to be at a discount, the Swedish trade journals spoke of attempts at imports of securities, though naturally not from the West but from Germany. There were advertisements of sales of German bonds, and the German War Loan was said to be offered through "different channels." Even commercial travelers handling securities were said to visit the south of Sweden and to make rather considerable, though, of course, uncontrollable sales, probably consisting principally of German war bonds. In May, when French exchange was first at a discount, it was believed that debts in that currency for some ten millions, probably Swedish kronor, had been repaid; and a month later there was not a little talk of repurchases of Swedish bonds from Germany, though the total amount was not believed to exceed kr. 15,000,000. After that time reports varied somewhat during the rest of the year; in October purchases were believed to have stopped for the time, but demands at the beginning of December were said to have increased considerably, and they now met with a sympathy which had altogether been absent before, because the difficulties of disposing of the large excesses of exports and freights increased incessantly.

Upon the whole, Swedish securities in foreign hands dominated completely, and Swedish bonds continuously; up to the end of 1916 the reported imports of securities consisted of 94 per cent of Swedish securities; and, in the case of bonds, of 91½ per cent. These known imports were such as were effected through banks and brokers, the rest being necessarily uncontrolled; on the basis of the reports of the official Bank Inspector the amount of this part of the imports of securities during 1915, at their purchasing prices, was about kr. 60,000,000, to which must be added an unknown amount for what had been purchased secretly, probably not less than some kr. 10,000,000.

The difficulty of financing the excess of exports, principally to Germany, had already, in July, 1915, given rise to the first regular Swedish banking credit for the purchase of goods. Through this agreement, which was made between four Swedish and two German banks, a credit of kr. 40,000,000 was granted against a security of Treasury Bills of the German Empire, and against licenses for German exports of gold—characteristically enough—as well as extensive licenses for German goods; the Swedish arrangers of the credit plumed themselves upon the fact that it was, first of all, to be used for the purchase of Swedish goods. This step met with a great deal of opposition in other quarters, being principally objected to on account of its reputed want of neutrality; but it was followed by the same sort of arrangement in the case of both the belligerent groups, during the period that followed.

From a general economic point of view, this regular credit was only a detail in the incessant increase of the foreign assets of the Swedish banks. During 1914 their net assets had fallen by kr. 19,000,000, it is true; but during the following year the reversal of this was so great that the assets rose by kr. 156,000,000, as compared with the close of 1914; and, consequently, by kr. 137,000,000, as compared with the close of 1913.[4] For this period the figure must be increased somewhat, though not much, on account of banking assets which figured as domestic, though they really represented assets

[4] Foreign government securities held by the Riksbank are included in these figures. For the first years of the War there is no need to take into account the error which became very important later on, i.e., the writing down of assets in foreign currencies. See below pp. 206-207.

in foreign countries; upon a guess the figures may, on this account, be increased to kr. 150,000,000, from the outbreak of war.

Gold imports were also of some importance in balancing the exports of goods during these first years of the War. The Riksbank showed only an inconsiderable increase,—kr. 6,000,000,—of its gold reserve during 1914, it is true; but during 1915 the amount was kr. 16,000,000; and to this must probably be added an amount of gold received from Germany, which did not figure in the reports because it was used to redeem mature Swedish Treasury Bills in England to the amount of £1,100,000, at the then rate of exchange of something like kr. 20,000,000 in Swedish money. Leaving aside other items of the same sort which may have been present, gold would, consequently, have been used for payment to Sweden to the amount of at least kr. 42,000,000 during 1914 and 1915.

If these figures be added this result will follow:

Imports of securities: kr. 60,000,000 + (say) kr. 10,000,000	*circa* kr. 70,000,000
Net increase in banking assets	*circa* kr. 150,000,000
Imports of gold	*circa* kr. 42,000,000
Total	*circa* kr. 262,000,000

If this table approaches the truth, about kr. 100,000,000 of credits to foreign countries must have been granted secretly, probably first of all by the exporters themselves; and this does not seem improbable.

It must finally be said that these figures do not show anything at all of what permanently accrued to Sweden in the form of assets in foreign countries; for only the creditors had so far done their part, and whether anything would be received in exchange or not was altogether unknown. In regard to the total amount of credits, this depended upon the ability and willingness to pay on the part of borrowers; with regard to credits in foreign currencies, which played the principal part during these first years, though no figures are available, there was added the risk of a discount in the foreign currencies; and even as to credits in Swedish money the question arose as to how much would remain of the purchasing power of the currency. All these bases, without exception, would, in due time, become fallacious, though to a highly variable degree.

CHAPTER IV

THE GOLD EMBARGO AND THE LIQUIDATION OF THE MONETARY UNION

(February, 1916, to July, 1917.)

The Increase in Foreign Valuation.

In spite of the fact that Swedish currency at the beginning of 1916 was at a premium, as compared with all, or almost all, European currencies, the monetary situation of Sweden was, consequently, in many respects far from satisfactory. As has been shown, the rise in prices had been going on during 1915, though at a somewhat slower rate, and without its magnitude being known at the time. The general public understood nothing at all of the real situation and was dominated, it is true, by rather hopeless ideas as to both the causes and the remedies for the rise in prices; its hostility was directed against "profiteering," and gave rise to demands for maximum prices as a help; for the inefficiency of this nostrum did not become clear to the people for a long time. But economists in complete unison publicly emphasized the dangers of what was going on, as well as its relation to monetary conditions. A new increase in the note circulation, in the autumn of 1915, after a halt of more than a year, was a particularly serious reminder.

Birth of the Idea of a Gold Embargo.

Certain economists made this a reproach to the Riksbank and repeatedly attacked the Bank for what was going on. But against this criticism, which had its principal spokesman in Professor Cassel, Professor Davidson, in the final issue of the *Ekonomisk Tidskrift* for 1915, expressed an opinion which became of importance in actual monetary policy. In this article he pointed out that the Riksbank could do no more than keep the Swedish monetary unit at par against gold, and that this was unalterable unless the right of the public to exchange gold notes for Swedish kronor was revoked. From what the author said later it is clear that he had no thought of proposing such an arrangement; and the same was the case with the foremost theoretical spokesman for a free currency, Professor Wicksell.

The points of view of these theorists did, however, coincide curiously with the interests of the directors of the Bank, though these were at bottom of an altogether different character. The persons responsible for the monetary policy of the Central Bank found only two inconveniences in the existing order of things. One of them, and in their eyes, so far as can be seen, the most important, appears to have been the Riksbank's being forced to buy gold at par when foreign exchanges were at a discount, and gold might, consequently, be had far more cheaply through them. The other point was their opinion that they ought not to be compelled to buy gold at any price if they did not see any need for it. The considerable imports of gold, according to Swedish conditions at the beginning of 1916, made the Bank directors more keen to end these inconveniences; but at the beginning of November of the year before, the trade journal *Affärsvärlden* had already given voice to such an "unpractical" opinion as that gold was, for many reasons, a rather unwelcome payment for foreign debts, though it could not easily be rejected.

To the opinion of economists, as to the existence of a connection between the policy of the Riksbank and the depreciation in the value of money, the Bank's officers did not give much credence, to judge by their public utterances; but the suggestion of Professor Davidson seemed to offer a possibility of favoring the views of the Bank directors themselves.

On the other hand, the same suggestion appeared to meet the requirements of economists. For under a standard of money which was left unfettered in the upward direction, it would be possible (at least according to the opinion of several theorists) to put a definite stop to the rise in prices, even if the purchasing power of gold should sink and prices, consequently, rise if expressed in gold; an excess of exports paid for by gold, which could not be prevented under a complete Gold Standard without a rise in home prices parallel to the foreign ones, would then also become unnecessary. This would likewise create the possibility of limiting the growing scarcity of goods by keeping more of the products of the country within its borders; and the rise in prices would, consequently, be met in two different ways at the same time,—by combating simultaneously the decrease in goods and the increase of notes. But while the wishes of the leaders of the Bank might be fulfilled simply through renouncing its obligation to buy gold at par, the results now mentioned

required much more than that; first, this exemption must be used to keep gold from coming in, if the circulation was thereby made to increase; and second, and above all, the value of money must be kept from sinking, *pari passu* with that of foreign countries, not only by an embargo upon gold but also by corresponding measures against other factors which had the same effect, particularly credits to foreign countries in all their manifold forms. The last-named contingency was very complicated and difficult to master, as will be made more clear toward the end of this chapter; but economists were quite unanimous as to the importance of preventing it. Consequently, the objects of the Bank's controllers and those of the economists were almost completely at variance from the outset; and this could not fail to lead to serious disappointments later on.

To free a currency in the upward direction, i.e., to allow it to rise to an unlimited premium as against gold, was quite without a counterpart in the checkered monetary history of the world, so far as is known. Formally speaking, parallels were certainly not lacking in the field of the Silver Standard, it is true, such as the Austrian *gulden* notes, which were, at the beginning, convertible into silver but afterward became inconvertible, and were then allowed to exceed their original value in silver in order to prevent them from following the fall in the value of silver as compared with gold. Properly speaking, the difference was very important, however. For under a manipulated Silver Standard gold remained the one standard of value to which the currency was intended to conform. The Swedish experiment, consequently, meant something which had not, up to that time, been advocated outside the circles of theorists, and by none as consistently as by Professor Wicksell. Through it the monetary system would, in *both* directions, lose its contact with every external object and become a currency unconnected with any particular commodity. On paper one exception to this still remained, i.e., the duty of the Riksbank to redeem its notes by gold to a fixed amount —quite a distinct thing from that of redeeming gold by notes— and by that a guarantee against a discount of notes as against gold. But, as a matter of fact, this guarantee had almost been abolished in substance through the prohibition of the export of gold, which limited the minimum value of notes to an equality with gold *within* the country and not to gold in the world's markets.

In the light of later developments another side of the Swedish

embargo upon gold appears particularly characteristic. When the currency was set free from its connection with gold, it was not tied to any *other* norm of importance to the value of money, such as a multiple standard, i.e., a fixed price index, representing the total of commodities, or to anything else. By the omission of this, the Swedish monetary unit became, as a matter of fact, quite free and indefinable, regulated solely by the almost unshackled monetary policy of the Central Bank.

The Character of the Gold Embargo.

Like most surprising changes the embargo came about after very summary preparations. At the beginning of 1916 the Governor of the Riksbank asked Professor Davidson for an opinion upon the plan. The latter declared that the idea certainly was very good, but also difficult to realize, and he advised the calling together of a committee consisting of business men and economists, for the study of the matter, before anything was decided. The Governor preferred, however, to consult certain other economists individually and privately; and as their advice appears unanimously to have been in the affirmative, the directors of the Bank wrote to the Government on February 4, 1916. In this letter they referred to the sufficiency of gold reserve, on the one hand, and, on the other, to the difficulty the Riksbank "would find, under present conditions, in selling 'abundant' gold without a very considerable loss"; upon these grounds they asked for an exemption from the obligation to buy gold and, at the same time, proposed the abolition of free minting, i.e., the right of the public to have gold minted. The only objection to this which made itself heard came from the Conservative leader in the Upper Chamber, Mr. Justice Trygger; he put his finger upon the danger of making the value of money entirely dependent upon the measures of the controllers of the Bank. On February 8 a law empowering the King, at first for one year, to exempt the Riksbank from its duty of buying gold was promulgated; and the authorization foreseen in it was given soon afterward.

The embargo upon gold, consequently, was not a prohibition of import, but only an exemption of the Riksbank and the Royal Mint from the duty of introducing imported gold into the Swedish monetary system. The criticism which was later on sometimes leveled against the embargo by the private banks, namely, that it prevented

the country from receiving sufficient gold reserves was, consequently, unjust, in so far as no persons or institutions were kept from importing all the foreign gold they liked; but, on the other hand, the embargo must have increased the risk of such a proceeding and, consequently, made it more difficult. From the form of the embargo it further followed that the Riksbank had kept its right to buy as much or as little gold and at such a price as it liked, without being bound by any rules; while under a prohibition of import and government licenses it would have had to follow the requirements of others. Thus, from the form it took, the embargo would mean for the Swedish monetary system an almost unlimited dependence upon the all but unhampered measures of the Riksbank, which we have just pointed out. As the controllers of the Bank had, during 1915, often emphasized their belief in the impossibility of influencing the development of monetary conditions by any form of banking policy, such an order of things must appear paradoxical. But this does not appear to have occurred to people when the new system was inaugurated.

Relations with Denmark and Norway.

The reason why the form of an import embargo was not chosen lay in the *Scandinavian Monetary Union.* The first period and phase of its influence upon the monetary system during these troublous years now made itself felt; and this influence for a long time kept the embargo upon gold from leading to such results as might otherwise have been possible. In order to explain this it is necessary to go back to the development of inter-Scandinavian monetary conditions from the outbreak of the War.

Once the Gold Standard could no longer function there was nothing left to prevent the Scandinavian currencies from drifting apart to any degree; for the Monetary Union knew no other guarantee of a uniform monetary policy than gold; and if the parity had remained, in spite of the disappearance of the Gold Standard, this could only have been as the result either of a more or less fortuitous speculation or of some newly created unity in the policy of the three countries. As, however, the revolutionary change in monetary conditions had occurred without thought of or reference to its reactions upon the Monetary Union, this did not become clear to the public in any of the three countries. And when the disparity between the

currencies came to light the consequence, therefore, was an astonishment and an irritation which were only natural; this showed, at the same time, it is true, to how great an extent the unity of Scandinavian currency conditions had come to be regarded as part of the natural order of things.

As the Scandinavian countries were in many ways differently influenced by the War, it was only natural that their monetary developments should also diverge. But it is not the object of the present investigation to explain monetary developments in the neighboring countries; and a few suggestions must, therefore, suffice. Already, during the years just before the War, Denmark and Norway, as was mentioned in the first chapter, had had some difficulty in keeping their currencies at par, as compared with that of Sweden, and this had shown itself in an increasing influx of Danish and Norwegian notes into Sweden, as the easiest form of compensation, when the method of selling drafts at par upon the central banks of the other countries had been discontinued. From an almost complete equilibrium in 1910 the excess of notes from Denmark and Norway rose to kr. 10,000,000, kr. 29,000,000, and kr. 38,000,000, respectively, in the years 1911-1913. During the War this rather faint pre-war tendency was increased by the fact that the war boom reached the neighboring countries considerably earlier than Sweden on account of their greater nearness to the great conflagration. Particularly in Denmark, but also in Norway, brisk conditions on the Stock Exchange came earlier than in Sweden, which finds its explanation in the stronger influence of the situation upon sea-faring communities, and, consequently, upon their monetary conditions, when such a tendency was not checked by the necessary restriction of credit. By the turn of the year 1914-1915 Danish shipping shares were generally quoted higher than before the outbreak of the War; and in April-May, 1915, the tendency of speculation on the Danish Stock Exchange was already marked; while it assumed almost violent proportions in the later part of the summer. Norwegian conditions were similar though less marked.

During 1914 this difference in developments in the three countries of the monetary union did not, however, appear in regard to currency conditions otherwise than in a further increase in the influx of notes to Sweden, so that the excess amount rose from kr. 38,000,000 to kr. 45,000,000, wholly in Danish notes. This meant

that the country which experienced the most serious fall in the value of money, i.e., Denmark, did, to a certain extent, influence Sweden in the same direction; and if this had been allowed to continue no disagreement between the different currencies would have been necessary, but the equilibrium in that case would have been kept by the fact that that country, the currency of which was most at a discount, would have carried the other two with her. This development presupposed, however, the unconditional acceptance of notes at par all over the Union; and, as I have said in my introductory chapter, Sweden had never bound herself to this.

What followed, then, was a foregone conclusion. Even in the beginning of 1915 it was noted in the *Affärsvärlden* of January 13, that in the money in circulation, "as everyone has observed," to an unusual degree Danish bank notes were in evidence. And for the first time this resulted in registering an influence upon the exchange, so that Danish bills in the open market were quoted at 99, 90, or at a discount of 1 per mill. A passing rise in the strongest foreign currencies later in the year,—in July and August,—began in Denmark, and then made itself felt in Sweden. The pressure upon the unity of Scandinavian currencies became, consequently, more and more powerful; and early in the autumn Danish exchange dropped definitely to a discount in the open market in Stockholm, to be slowly followed by Norwegian exchange. The official quotations, as usual, were slower to change; but from October 9 they, too, were at a discount compared with Danish; and in December the same became true of Norwegian exchange. The lowest official quotations during 1915 represented discounts of 2½ and 1¼ per cent, respectively. The influx of notes from Denmark had continued during that time, no doubt principally before the discount in Stockholm quotations ended all the attractions of sending notes, which were usually quoted even somewhat below bills. The excess amount of Danish and Norwegian notes sent back by the Riksbank to their respective countries during 1915 rose as high as kr. 72,000,000, compared with kr. 45,000,000 in 1914. This represented an exclusive increase in Danish notes.

There remained, however, one chance for Denmark and Norway to nullify the difference in the exchanges, viz., by sending gold, and above all Scandinavian gold coins, which were legal tender in Sweden. If this had been profitable to them, it would have been the cheap-

est form of payment, but this was not the case till the Swedish currency had reached or exceeded gold parity. When the currencies of the neighboring countries also reached the same position, i.e., from about the turn of the year 1915-1916, all alike had to count upon an influx of gold from other countries; and this would clearly increase the temptation of Denmark and Norway to reconstitute inter-Scandinavian parity by gold exports to Sweden. The embargo upon gold must, consequently, prove ineffective, so long as the Monetary Union made it possible for the two other parties to it to procure gold, and above all Scandinavian gold coin, for Sweden.

The duty of the Riksbank to purchase gold at par was not, in any way, guaranteed in the Monetary Convention, but this held in the case of free minting; and the abolition of the first-named stipulation only, the obligation of the Central Bank to buy gold—remained ineffective, in so far as it was lawful for anyone to send gold to the Mint. A prohibition of import would have been enough to prevent this, it is true, because bullion certainly did not exist to any appreciable extent outside the Riksbank. But in order to be of importance such a prohibition of import would also have had to include Scandinavian gold coin; for otherwise gold from other countries would be minted in Denmark and Norway and thence enter Swedish circulation as legal tender. A prohibition of import of legal tender would, on the other hand, have been considered too unnatural; and so it came about that the Mint and the Riksbank, instead of the boundaries, were closed against gold. Even this made an agreement with Denmark and Norway necessary, however. It was only natural that the new policy, which meant a free currency, was not workable without either the abolition or the real alteration, of a monetary union which had presupposed a Gold Standard. The latter alternative, that is to say, the enrollment of Denmark and Norway in the policy of the embargo, was what everyone was hoping for in Sweden.

To the other parties to the Monetary Union the situation appeared in a different light, however. With them the economic discussion, which in Sweden had preceded the embargo upon gold, had had no real counterpart; nor did their central banks appear to be as much averse to unlimited purchases of gold at par as was the Swedish Riksbank. The change in Sweden, therefore, appears to have come rather as an unwelcome surprise to the other two countries; and what might be expected to put the chief pressure upon their au-

thorities to accede to the Swedish policy was the desire, thereby, to make away with the premium upon Swedish currency, which was looked upon with great and quite natural annoyance. As a matter of fact, however, this was a very insecure foundation to build upon; for even an embargo in all three countries would not create a guarantee that the appreciation as compared with gold would be *the same* in all three countries; and so long as this was not guaranteed there was no security for an inter-Scandinavian parity. At this point the consequences of the fact that no new norm had been substituted for gold parity accordingly came to light at once. It was, therefore, in no way surprising that an agreement should be difficult to arrange; but this undeniably sheds a strong light upon the difficulties of a monetary union during a period of disturbance in monetary matters.

The Danish and Norwegian Gold Embargoes of 1916.

The nearest starting point for an agreement was the introduction of an embargo in Denmark and Norway. This was effected in Norway on April 15, and in Denmark two days afterward. On April 28 free minting could, consequently, be abolished in Sweden. But the Monetary Convention, as such, remained unchanged and, consequently, all Scandinavian coins remained legal tender throughout the Union. As the embargo had not guaranteed any definite value to the currency to be effective, the embargo had, however, to be supplemented by an agreement which prevented the influx of Scandinavian gold coins from such countries as kept their currencies lower than those of their fellows. But for this, the country with the lowest currency would always have been able to prevent the rest from keeping their currencies above the old parity. On the other hand, it is quite clear that if there was an agreement to prevent inter-Scandinavian movements of Scandinavian gold coin, the guarantee for a parity had also disappeared. This dilemma was impossible to escape, unless the currency was bound to some common norm, or the mutual independence of the currency policy of the three central banks was otherwise abolished.

The formal solution was found in the prohibition of exports of gold, which had remained in force in all three countries even after their exchanges had become at a premium. By the end of February,

1916, representatives of the three banks had agreed in Stockholm that export licenses for gold should not be recommended by any of the banks without having first been discussed among them. No formal obligation to prevent gold exports could be laid upon the banks, as that lay within the province of the Government, and the governments of the three countries had had nothing to do with the agreement. On this rather weak basis the embargo policy was now to be carried out.

In February the discount disappeared in the case of Danish and Norwegian exchange, not only on bills but also on notes; and the Monetary Union so far appeared to have come to life again. In April and May Norwegian exchange was even at a small premium in Stockholm. Either the monetary situation was at that time the same in all countries, or—which appears more probable—the speculators considered parity now to be guaranteed, and, consequently, made it the basis of their calculations; gold movements at least had nothing to do with it. But this situation remained for less than half a year. By the beginning of August Danish exchange was again at a discount in Stockholm. Before the end of the month it was followed by Norwegian. And thereafter—in the period studied in the present treatise—parity between Swedish currency on one hand, and Danish and Norwegian on the other, never reappeared. At the turn of the year 1916-1917 the discount had become considerably greater than before the embargo; officially it was respectively 6½ and 4¾ per cent, and in the open market it was even more. Under this pressure the agreement of February could not be maintained, and a new influx of gold from Denmark began. In September, 1916, it reached kr. 5,500,000; and, in all, in 1916 it was probably kr. 20,600,000.[1] For the formal embargo had not kept Denmark or Norway from continuing to receive gold. In Denmark the imported gold had, according to the reports of the Mint, been minted on a great scale and, according to the express declaration of the Swedish Riksbank, had been sent to it against its explicit desire, on the strength of the Monetary Convention. According to Danish reports this was done at the instance of the Bank of Norway, in order to liquidate its debt to the Swedish Riksbank, the Danish Bank being in debt to the

[1] To the increase in assets in Scandinavian gold coin in the Riksbank there has always here been added the gold given out for use in industry, because this appears to have been paid in coin.

Norwegian. It followed from this that the Riksbank had had to buy gold at par in Swedish money, in spite of the possibility of getting it from other countries much more cheaply; and in the eyes of the Bank this was the most serious part of the matter.

The Agreement of 1917.

Such a situation could hardly last, for the results of the embargo to Sweden had been, to a great extent, neutralized, without inter-Scandinavian parity having reappeared. In Sweden the idea of renouncing the Union altogether was then near at hand; and at the instance of the Riksbank Professor Davidson drew up a memorandum in which he came to the conclusion that Article IX of the Convention, which spoke of the coinage as being legal tender in all three countries, ought to be abrogated, and that that part of Article XIII which referred to free minting for private persons should also be revoked; the legal character of the coins of one country when in another would afterward have to be regulated through a separate agreement. In the first half of February, 1917, the directors of the Riksbank sent the Swedish Government a rather sharply worded statement, in which, after referring to their usual motive for the embargo, they proposed negotiations looking to an alteration of the Convention in the sense foreshadowed by Professor Davidson, as also an agreement between the governments not to allow exports of Scandinavian gold coin before the end of the negotiations. At a conference in Stockholm on April 17, 1917, the final result was a milder measure, however, i.e., the three governments were to allow no exceptions from the prohibition of exports of gold, and not to abrogate the prohibition without further communication with the other countries in the Union. The Swedish Government agreed to this proposal at once, and the other two followed somewhat slowly, on June 22 and July 13 respectively. Denmark and Sweden decided that the arrangement should be subject to three months' notice. But Norway, on the other hand, while expressing its intention of following the new policy, explicitly retained its formal right to abolish the prohibition of export of gold at any time. And then only did it become possible for Sweden to make the embargo effective.

The minting figures of the Danish Royal Mint show quite clearly that the obstacle which had before grown out of the Monetary Union

had now disappeared. For during the current years the following amounts were minted:

April 1-March 31, 1915-1916—kr. 10,650,000
1916-1917—kr. 28,010,000
1917-1918—kr. 1,330,000

And from then no gold whatever was minted.

The Effects from the Point of View of the Riksbank.

In spite of this it must be said that the object of Sweden's policy was not, in any sense, attained. In order of time this belongs to the next chapter; we shall illustrate here only the development of gold movements as the outcome of this phase of the influence of the Monetary Union upon currency policy.

Examining the changes in assets in Scandinavian coin in the Riksbank, a continuous increase appears up to the end of 1917. For the whole calendar year the increase was kr. 36,440,000, to which must be added kr. 1,300,000 devoted to industry, so that the total increase must have been kr. 37,740,000. And of this increase not less than kr. 23,530,000, or, including gold used in industry, about kr. 24,000,000, was made in that part of the year which came after the end of July, when the new Convention had been accepted by all parties. This cannot have been the result of minting within the country, because nothing of the sort took place in Sweden at any time during the War; and it must be held to be a fact that considerable amounts of Scandinavian gold coins entered the country even after the Convention of 1917. On the other hand, it is generally agreed that Denmark and Norway acted quite loyally in the matter, and the explanation must, consequently, be that the Riksbank took in this gold of its own free will. This phenomenon was the more surprising in so much as it meant the voluntary receipt of payments in gold at the mint price during exactly that period in which Swedish currency was most of all at a premium; during September, October, and November, 1917, when the greater part of the imports were made, the dollar was at a discount in Stockholm of 20.6, 28.2, and 31.6 per cent, taking monthly averages, and on some days the discount was even greater. Looking for an explanation of this paradox, it can be found in the eagerness of the Bank to increase its gold reserves (in view of the strong relative decrease of this reserve) as

a foundation for an increase in the note issue; and the Bank was willing to do this even with the help of the expensive Scandinavian gold, when gold in other forms was not for the moment available or was not believed to be available.[2] For this purpose the Bank had, consequently, given up even that advantage which had been the reason for its strongest opposition to allowing the character of the Monetary Union to stand unchanged.

The other original viewpoint and attitude of the Riksbank with regard to the embargo—the uselessness of an increase of the gold reserve—became of even less influence upon its gold policy; for gold imports were not restricted to Scandinavian coin. Even before, when the Riksbank tried to keep out gold coin by every means, the same phenomenon had occurred, i.e., an import of other forms of gold; this sort of import went back to the time of the beginning of the premium on Swedish currency. During 1915 it had been almost kr. 16,000,000 and during 1916 above kr. 41,000,000. The following small table will show developments during the different periods which are of importance for our purpose:[3]

Gold Imports: 1915-1917, in kr. 1,000,000.

	In Scandinavian currency	*Gold in other forms*	*Total*
During the years 1915, 1916, and 1917	59.11	81.57	140.68
From the gold embargo of February, 1916, to the end of 1917	59.00	29.80	88.80
From August, 1917, to the end of the year	24.07	16.29	40.36

In the light of these figures the explanation of the causes of developments given principally by Professor Cassel is easy to understand, namely, that it was *not* the influx of Scandinavian coin which had, even before the agreement of 1917, been the real reason for the

[2] A study of the monthly statements of the Riksbank for September to December, 1917, will show that the imports of gold coins and those of other gold, as a rule, occurred during different months; imports of the first character during September and October, consequently, were caused by the fact that the Bank directors did not venture to wait for the large imports of other gold which occurred in December. The unused margin of the right of note issue was at its lowest at the end of September, standing at 6.36 per cent.

[3] Gold given out for use in industry, considered, as before, as a deduction from the amount of minted gold, has been distributed equally over the year; but its influence is negligible.

increase of the gold reserve. It is possible, however, that the controllers of the Bank had considered the increase of gold inevitable, so long as Scandinavian gold could not effectively be left out, and had, in such a situation, allowed the depression of the premium on Swedish currency to be effected by the help of cheap imports of gold from other countries, in preference to expensive gold imports from Scandinavia. It must be said, however, that the continuation of strong gold imports after the beginning of August, 1917, rather argues against such a supposition; and the conclusion so far must be that the controllers of the Bank had been unwilling to use the embargo upon gold in the interests even of those objects which they had set up for themselves when the new line of policy was resolved upon in February, 1916.[4]

From a general economic point of view these objects were of subordinate importance, however; the important thing was something else—the influence of the policy upon the monetary system and general economic life of Sweden. When the question is put in that form, the reply becomes considerably more complicated than before. In order to find an answer it will be necessary to go back to the beginning of the period now under discussion, the time just after the inauguration of the embargo in February, 1916.

The Influence on the Value of Money.

The fall in the internal value of Swedish money was absolutely uninterrupted after the embargo in February, 1916; the speed of its fall was even increased not a little, as compared with most of 1915, so far as the wholesale price index can be considered reliable. This will be seen from the relative rise in prices for each quarter, computed on the basis of the situation in the quarter just before:

Wholesale Price Index, 1915-1916.

	1st Quarter	*2d Quarter*	*3d Quarter*	*4th Quarter*
1915	12.5	5.9	2.8	5.4
1916	5.8	6.7	9.1	9.4

[4] It is, on the other hand, just possible that the purchases of gold had different motives before and after the beginning of August, 1917—during the earlier period the impossibility of keeping out Scandinavian gold, and during the later period the wish to increase the gold reserve at any price. It seems impossible for the man in the street to decide between these two possibilities.

From the autumn of 1915 not only the price level but also the note circulation increased; up to the armistice it was an exception to find any single month showing a lower figure than, or even the same figure as that of the preceding month (Diagrams II and III). As the diagrams show, this did not keep the increase in prices from being constantly greater than that of the note issue, it is true, so that the spread between the two curves was continuously growing; but in contrast with the earlier period not only one but both were now increasing. The wholesale price index for the last quarter of 1916 showed a figure double that of pre-war times, while the note issue showed an increase of two-thirds.

With regard to the difference in increase of note issue and price level, the explanations given before continue to hold good, though to an increased extent both positively and negatively. In the field of production, this was the situation: the volume of industry was computed to be even higher than during 1915, no less than 109 per cent of the figure for 1913 (the highest record reported up to 1925). On the basis of the figures for the value of industrial products in 1916 the excess over 1913 may be reckoned in money, at the price level of the year, at something like kr. 290,000,000. The harvest was high in total food values but may have represented a slightly reduced demand for money; as grain, the most important product sold, had decreased by some 9 per cent. Some deductions will also have to be made, first, for the amount of goods at the disposal of the Swedish people, on account of the less useful channels of production outside and within the country, as compared with pre-war conditions, and also because of the high inward freights. But, on the other hand, a certain amount must also be added to the kr. 290,000,000, on account of the more remunerative price relation between imported and exported goods, including the heavy gains from shipping. The result of all these factors, the last of which can hardly be computed, was probably not a total deduction from 1913 figures, but rather an increase above the amount which represented the increase in the volume of industrial production. But the balance was completely changed by the export of capital, which was simply enormous, considering Swedish conditions. According to a computation given below it was something like kr. 670,000,000; this several times exceeded the excess which may have resulted from the items given before. To find a figure which, even comparatively, gives the exact

result for all these factors is impossible; but in order to give a general impression of its magnitude a computation has been made in the following note. The result will be found to be that the deviation of the price-level increase from the increase of note circulation during 1916 is, to the extent of something like one-half, attributable to a scarcity of goods.[5]

The rest of the explanation, consequently, must come from the side of money; it consists partly in an increased velocity of circulation, partly in an increased use of payment by check; the latter is explained—though not measured—by the fact that the deposits on current account with private banks during 1916 rose by 76 per cent, as compared with an increase of total deposits of only 25 per cent, and of the note issue of 47.4 per cent.

The consequences of the deterioration of money had now begun to show in full force in every direction. Stock Exchange operations (Diagram XII) increased almost without interruption throughout the whole year; not making corrections for changes in the value of

[5] The figures for industrial production in 1916 are put—too high, it is true—by official statistics at kr. 3,478,000,000. As the volume was said to represent 109 per cent of 1913, this would mean, given an unchanged average relation between the values of different products, an increase in value of $\frac{9}{109}$ x kr. 3,478,000,000 in the prices of the year, i.e., kr. 288,000,000. Against this stands the export of capital, kr. 670,000,000. Both factors together would result in a net decrease of goods to the value of kr. 380,000,000. In order to measure the influence of this, the national income must be computed: it has been put at kr. 4,410,000,000. The decrease of goods represents 8.6 per cent of this; the real national income will then be 91.4 per cent of that of 1913. Under unchanged monetary conditions this would have led to an increase in prices equal to 100 x 100/91.4 or 109.41 per cent of the pre-war level. As the average index of circulation for the year was 154.5, the average price level on account of the decrease of goods would have risen to 1.0941 x 154.5 or 169.4 per cent of the pre-war figure. The wholesale price-index figure, as observed, is now 184.75; the difference between wholesale price and circulation indexes being, consequently, 30.5; and this difference appears to be rather evenly divided between changes on the part of commodities and those changes on the side of money which had occurred outside the increase of note circulation. In this computation matters have been simplified in many respects, however; e.g., the value of the national income and the value of all the services and products of a country have been regarded as identical, though the last named, as a matter of fact, includes also what is substituted for means of production that have been used up. No more than such a tendency can, consequently, be shown by this computation.

money, the turnover was trebled between the first and the second quarter, and doubled if not trebled again between the third and the fourth. Compared with 1915 the turnover increased almost twelve times; even when reduced to the basis of an unchanged value of money, i.e., of wholesale prices, it increased nine times. Upon the latter computation, the figure for the last year of good trade before the War, or 1912, had been almost reached, that is, the uncorrected figures had been nearly doubled. But even this does not give a true impression of the psychological effects of the change; for the reversal now came with a violence without counterpart in earlier times, and it occurred during a period of increased scarcity of food in the case of the great majority, and general anxiety with regard to the future. The flotation of shares in both old and newly-created companies increased also. (Diagrams XIII and XIV represent this inadequately because many stocks were issued above par.) But it is significant that several new issues by the same company, in this one year, constituted nothing exceptional for the time. This being the situation, it goes without saying that the reports from the Stock Exchange spoke of boom conditions with very few and very brief reverses. A mushroom growth of new brokerage firms was also characteristic of the excess of money; they speculated in scrip themselves, and helped the general public to do so. Bank loans upon company shares, as collateral, pointed the same way; in 1916 they rose by kr. 182,000,000, or more than any other form of loan. No less significant are the developments in the opposite direction, in the case of bond issues. Though they continued to grow somewhat in nominal amount, the figure for 1915 represented the maximum on the basis of an unchanged price level. A backward movement began in 1915 and was to continue; and the newspapers were repeatedly discussing the difficulty of finding purchasers for the new loans of the State and of private firms—the great imports of Swedish bonds from foreign parts contributing to this tendency, it is true.

Discount Policy.

A diagnosis of the development of Swedish economic life during 1916 could, therefore, hardly be doubtful; the only thing which might be in doubt was the remote causes behind the immediate cause, the excess of money.

In that connection it may be said without injustice that the action of the Riksbank, from a general monetary point of view, was broadly the same as if there had been no embargo upon gold. While not only the price level but also the note circulation, which came nearer to the heart of the Riksbank, rose from month to month, the bank rate was even *lowered* from 5½ to 5 per cent, and the rediscount rate from 5 to 4½ per cent, on April 30, 1916. Only after another half year—on November 9—was the old rate reintroduced. And even that rate had earlier accompanied a marked fall in the value of money. It now stood for another ten months. The "abundant supply of money" was so generally known, and was in more thoughtful business circles looked upon with such great anxiety, that even the trade journal *Affärsvärlden* proposed, on June 28, 1916, an increase of the rate, not only for deposits but also for loans, two months after the Riksbank had lowered the latter; and the reason given was that stock quotations had already discounted a favorable continuation of the boom. It is also significant that the large transactions on the Stock Exchange were spots and not futures. Shortly afterward the State discounted kr. 30,000,000 of treasury bills in private banks and afterward kr. 20,000,000 with the Riksbank, the latter at the instance of the Bank itself, on account of the great supply of money. But if the Bank controllers expected this to have any influence upon the excess of money they were certainly disappointed. For the temporary increase in the balances of the State on current account with the Riksbank instantly disappeared again, as the money was used for state expenditures and was, consequently, again put into circulation.

The Riksbank, when increasing the rate to its old level, also made use of one of those measures of moral suasion against financial ruin which were to become more and more frequent as time went on. It sent out a warning against speculation, and called upon the private banks to limit credits and keep down the amounts lent on securities. This measure was so futile, when facing the trend of those economic powers in opposition which had, to a great extent, been created by monetary policy itself, that the Stock Exchange shortly afterward became the scene of a new boom which, toward the end of the same month, showed, according to the expression of the *Affärsvärlden*, "evidences of recklessness." The remedy that lay in a restrictive discount policy the controllers of the Bank declined to try, which was

natural only in so far as their belief was founded upon the impossibility of raising our currency above par. It must be remarked, even over and above that, that the Swedish bank rate could not be regarded as unimportant with regard to that of our neighboring countries; for one of the directors of the Danish National Bank, in October, remarked upon the increasing indebtedness of the Danish banks to Sweden and Norway, and this might be expected to have driven the Danish Central Bank to counter measures if it had been stimulated by an increase in the Swedish bank rate. As the danger under the one-sided gold embargo which prevailed at that time came from the neighboring countries, the Swedish discount policy, consequently, cannot even under the most charitable supposition be entirely disculpated from influencing the currency in a downward direction. Judging from the words and acts of the controllers of the Bank, both in the preceding and in the following periods, it appears, however, that their principal motive was another, i.e., a belief in the inefficiency of a discount policy under war conditions.

Foreign Credits.

The policy of the Bank may have had influence in another direction also, and that in the most important of all, i.e., economic relations with foreign countries, though the connection between cause and effect is much more doubtful in this case. Developments during 1916 consisted in an enormous increase in that tendency to export capital which had already been strong before. The facts will first be given, so far as they can be ascertained.

The excess of exports for 1916 amounted to kr. 418,000,000, which, even if the fall in the value of money be taken into account, means almost double the figures of the year before, which had been unique at that time. To this must be added revenue from freights, set down at almost kr. 439,000,000, even when taken on the basis of the rise in prices, about one and one-third the figures for 1915. To these must be added, as before, on one side the gains from commerce and commissions, on the other those costs which were laid upon neutrals during the commercial war, and which had certainly increased heavily since the year before. If these two items are reckoned as equal there is less reason than before for supposing the figures for capital exports to be too low. The assets may, then, be put at kr.

857,000,000. From this there must be deducted the expenditures of shipping in foreign countries, computed as before at 31 per cent of gross freights or kr. 136,000,000; and, further, Swedish interest payments to other countries which, after the great imports of Swedish bonds, cannot be put higher than kr. 50,000,000, making deductions of kr. 186,000,000 in all. This gives a net export of capital for 1916 of something like kr. *670,000,000*.

Coming next to the routes which were followed by capital exports, what first meets the eye is an import of securities by banks and brokers which can be put at kr. 160,000,000. To that may be added the same relative amount as that of the year before, increasing the figure to kr. 185,000,000 at least. During this year the belligerents had everywhere begun that "mobilization" of stocks of neutral bonds which were to be of enormous importance to financing the War; and it is, therefore, not surprising that Swedish imports of securities, even after a reduction on the basis of the rise in prices, were almost double that of the year before.

The next big item was the increase in the foreign assets of the banks; but the amount of this becomes more difficult to ascertain for every year the War continued. The reasons are two, first and foremost, that nominally internal debts due to the banks (to an unknown amount) are included therein; second, the successive writing-down of the foreign currencies, which must *not* be taken into account when the object is to find out what Sweden had put at the disposal of other countries without corresponding deliveries on their part. Details which have been imparted to me through the kindness of some of our big banks show quite clearly that this writing-down was done in a rather arbitrary way, but they point to the conclusion that its influence during 1916 cannot have been very great. The official figure for the increase in the foreign assets of the banks, kr. 250,000,000, must, therefore, probably be increased by not more than the nominally internal assets which belonged to them; but the figure for this it is impossible to state. As a minimum kr. 50,000,000 is probable, i.e., about one-eighth of the increase in such loans as can largely be influenced by this factor; but even the double amount does not appear improbable. In the increase of banking credits a particular credit amounting to kr. 40,000,000, for French purchases of goods, was included; it was a counterbalance to the credit to Germany of the year before, but had, in contrast to this, as a

collateral, Swedish bonds in French hands. The third item was gold imports put at kr. 59,000,000. The minimum figures for these three groups appear to have been, in kr. 1,000,000:

Imports of securities (Foreign)	185
Increase in banking assets	300
Imports of gold	60
Total	545

In this case kr. 125,000,000 would, at the outside, have remained for financing of exports directly through exporters, that is, at the utmost, 18.7 per cent of the total capital exports and probably considerably less, as against 28 per cent in 1915. This change is characteristic, as it shows that credits could now only in a decreasing degree be given by the exhausting of sellers' stocks or in other ways unconnected with the monetary system.

That this development was unfortunate was admitted in business circles at the time, though the trouble then consisted in the fall in the value of assets in foreign currencies. In this connection the important thing is the relation to monetary policy, however. It is clear to every searching study of the situation that the low bank rate increased the total amount of credits, a result which is also in agreement with extensive practical experience. Particularly unfortunate was one objection to this, to the effect that businesses working upon credit during the War were far too profitable to be deterred by any rate which was within the range of possibility; for the pressure would have been put, not on concerns of that sort but, on the contrary, on such as were working under difficulties, and for whom an increase in the rate of interest must lead to a decrease in credit. As a matter of fact this was unconsciously admitted when it was said—at this time by the Governor of the Bank himself—in words that may even have been exaggerated, that a rise in the bank rate would be "an increased burden in all those innumerable cases where people were dependent upon credit but unable to profit by the war boom."

But it is quite another question whether an increase in the bank rate would merely have hit credits to foreign countries, and not other forms of credit instead. Such a result does not follow from a general line of reasoning, though some critics of the Riksbank appeared to believe so; and the result in itself was doubtful, to say the least. No

doubt there were some transactions with foreign countries which were relatively unremunerative, and which would, consequently, have been prevented by a rise in the bank rate; but it may be said with perfect certainty that this held good only in regard to a very small part of business with foreign countries under the war boom. Professor Davidson pointed out, with perfect justice, that the high real rate of interest in the belligerent countries must generally have made credits to them remunerative even under quite normal monetary conditions. A rate of interest which corresponded to an unchanged price level in Sweden and which could, consequently, not be exceeded without harm to us would, consequently, be unable to stop credits to foreign countries. And even over and above that, the part of export business which by far predominated over the rest held out such unparalleled chances of profits in the eyes of exporters themselves—fictitiously, as time would prove, it is true—that the Governor of the Bank was perfectly right when he said with regard to transactions of *that* sort, that business people would not be deterred by an increase in the bank rate of 1 or 2 per cent.

The influence upon imports of securities might have been somewhat greater, it is true, in so far as they were a starting point for the giving of credits and not its consequence; for an increased yield from home investments would have made purchases of bonds from abroad less attractive. But even in this case it holds good that the belligerents, on account of their incomparably greater scarcity of capital and their unique need of credits from neutrals, would have found it to be to their interest to sell securities even at a rate which gave neutral buyers a higher interest than they could find in their own country, after the bank rate there had been raised to the point required by the monetary situation. The most favorable result here to be expected would probably have been that an unchanged, or more probably somewhat increased, nominal amount of bonds would have been bought more cheaply, possibly for a smaller total amount in Swedish currency. But even if the result had been still more favorable, and the decrease of imports of securities had been considerable, the total result would hardly have been very much influenced by that, as the far more unwelcome assets in foreign countries would probably have increased instead.

Possibly another factor may have been working in the same direction. If the rise in the world's prices continuously originated outside

Sweden, this would constantly influence the rate of exchange between Sweden and the rest of the world. But this could only be effected through a continuous excess of debts due to Sweden; for only in this way could the rate of exchange be adjusted to the new level of relative prices. The situation would, in other words, have acted as a constant premium upon imports from Sweden into foreign countries—the reversal of the situation which occurred after the War in regard to countries like Germany, the exchanges upon which constantly *preceded* the internal value of money upon its downward road—the thing known as *Valuta-dumping*. It is a fair supposition that the upheaval of the world's monetary conditions did in this way continue to exercise an influence upon the Swedish situation, when the embargo upon gold had prevented an influx of gold from working in that direction; but it appears to be impossible to show the existence of the bearing of that phenomenon by the help of known facts.[6]

At all events it appears to be difficult to escape the conclusion that a discount policy which would have been of the greatest importance to save what was left of the value of Swedish money would have been unable to do anything considerable with regard to foreign credits, which were from one point of view the most unwelcome detail in the whole situation, because they emptied the country of goods and gave assets of a very dubious character instead. To counteract this would have required something more than the usual sort of discount policy; either extremely rigorous restrictions upon exports and shipping, or measures in the monetary field which were directed *especially* against credits to foreign countries. The last-named solution was of

[6] For this reason I refrain from going more deeply into this problem—originating with Professor Davidson (see next note). It must be pointed out, however, that the supposition is not at all refuted by the fact that the Swedish price level rose more sharply than those of foreign countries, when computed on the basis of the rate of exchange. For in so far as this was the result of an increased demand for Swedish goods, one-sided increases in freights, and so on, it did not constitute a disequilibrium, an "overvaluation" of the Swedish currency; and there is, consequently, nothing in this to gainsay the supposition that the Swedish price level was continuously lagging behind foreign ones—that the Swedish exchange was, as a matter of fact, "*under*valued," when all factors are taken into consideration. But, on the other hand, no positive proof of this can be found.

exceptional difficulty, however, and had not by this time led to any detailed proposals.[7]

Leaving aside the general discount policy the Riksbank helped to grant credits to foreign countries by increasing its own foreign assets by kr. 40,500,000 during 1916. The advantage of this to the Bank was very problematic, to say the least, but it is another question whether the influence upon the value of money was worth mentioning, and the reasons point to a negative answer; for otherwise private banks would probably, at a given bank rate, have increased their own foreign assets to the corresponding amount.

It is, lastly, still another question, if the gold embargo in itself had had any influence,—not upon the amount of capital exports, but upon their form,—by counterbalancing the import of gold and substituting for it foreign assets which became far more ruinous in the long run. Leaving aside both the fact that a great deal of foreign credit was given in Swedish currency—to an unknown amount, it is true—and the fact that another part, which can be proved to have been great, consisted of reimports of Swedish securities, this idea appears to be false for a reason which has already been given. The gold embargo did nothing more than free the country from an import of gold which would otherwise have been unavoidable at a value in Swedish currency above that of gold exporting countries; but there was no obstacle put in the way of exporters, shipping firms, private banks or controllers of the Riksbank, if they wanted to import gold, because it appeared to them to be the best counterbalance to their services to foreign countries. As has been shown, imports of gold remained considerable, and during the period of that one-sided

[7] The foremost representative of the opinion that a general increase in the bank rate could have counterbalanced the tendency to credits to foreign countries was Professor Cassel, i.e., in his book *Dyrtid och sedelöverflöd* (Stockholm, 1917). The Governor of the Bank, Mr. Moll, made objections to this in an article in the *Ekonomisk Tidskrift* of the same year; but in his reply to him, Professor Cassel tacitly left aside the question of the influence of foreign credits. This question was taken up by other authors in the same journal, however,—by Professor Wicksell in the same year, and, above all, by Professor Davidson in the following year. The last-named economist also prepared a preliminary memorandum upon measures against foreign credits, but it was not published; the fundamental idea of his plan is sketched in an article in the *Ekonomisk Tidskrift* for 1917; it is based upon Ricardo's treatment of the problem.

embargo which is now under consideration, the difficulty consisted precisely in the continuous import of Scandinavian gold coin and other forms of gold, which was great enough to prevent a further increase in the foreign valuation of the Swedish currency during the greater part of 1916. That imports of gold during the period of an effective embargo did not become greater than they did probably depended upon two facts, both uninfluenced by the embargo. One was this, that gold paid no interest; and the other was the ineradicable belief in a future return to parity on the part of the foreign exchanges, which held out brilliant gains to creditors in possession of foreign assets.

The Importance of the Gold Embargo.

The embargo upon gold had, consequently, been unable anywhere to attain its objects before the last agreement between the parties to the Monetary Convention in April, 1917; and the monetary situation went with long strides further along a path, the precariousness of which became apparent to ever widening circles. But, at the same time, opinions continued to disagree as much as before as to the possibility of preventing these developments, and—if it were possible—as to the right way of doing it.

On the other hand, this must not be considered equivalent to a statement that the embargo upon gold had been without importance as a protection to the value of money, even during its semi-application in 1916, and in the beginning of 1917. It had been possible to keep the best foreign currencies—dollars, Swiss francs and florins—at a discount of 3 or 4 per cent before the introduction of the gold embargo in February, 1916; but even such an insignificant discount as that had proved difficult to maintain without an embargo. The gradual fall subsequently in the value of foreign currencies from April to June, 1917, brought down the dollar to a discount of from 10 to 11, and florins to one of no less than 19, that is several times the figure before the embargo.[8] And it may confidently be assumed that the greater part of this was incompatible with an unlimited right to change gold into Swedish notes. And as, on the other hand, the relation between the internal and external valuation of Swedish

[8] Swiss exchange underwent such sharp fluctuations during 1917—much discussed at the time—that it can hardly be used for purposes of comparison.

currency, i.e., between the rate of exchange and the price level, must have been broadly the same independently of the embargo, the conclusion can hardly be avoided that the rise in Swedish prices would have been even greater than it was if there had been no embargo upon gold.

The Rate of Exchange and Price Levels.

This clearly gives no information with regard to actual relations between the rate of exchange and relative price levels. As to this, the deviation from the pre-war ratio which had been going on since the outbreak of the War continued uninterruptedly, so that the disproportion was steadily on the increase (Diagram IV). While London exchange, as quoted in Stockholm, during the last quarter of 1915 had been at a discount of 4.7 per cent, and a year later at 8.6 per cent, the Swedish increase of prices had been greater than the English, having grown from 114 per cent—as compared with the English—to 117.4.

The explanation of this fact is chiefly the same as above stated. The foreign demand for Swedish export goods, principally iron, steel, and machinery, as well as mechanical and chemical pulp, now increased almost to a frenzy; it was also satisfied to a very great extent, as compared with our own supplies of foreign goods, as is shown by the enormous excess of exports. To what an extent the export industry was flourishing, comments of the *Affärsvärlden* in 1916 will illustrate. The prospects were said to be more brilliant for iron and steel than ever before (September 20), and the iron industry was said to have reached the limits of its capacity; the engineering industry and the shipyards were working under high pressure (October 4); half the pig-iron production for the following year was sold in the autumn (October 4); and (November 1) hardly any sellers of pig iron could be found. For sulphate the demand from Germany (November 1) was so great that almost our total production could be sold there. On December 27 scarcely any stocks of mechanical pulp were left. With regard to lumber the situation on the threshold of 1917 (November 29, 1916) was said to be without a counterpart in the history of that industry, with a record export, though its position (December 13) was, rightly, held to be still less favorable than that of iron and pulp.

The development of prices for the same groups of export goods

as before (Diagram VII) shows, for three of them, from an early date in 1916, a considerably more marked rise than that of the Swedish wholesale price level; lumber alone remained behind. A comparison of the same sort as before is here given:

	1916			
	1st Qr.	*2d Qr.*	*3d Qr.*	*4th Qr.*
Swedish wholesale price index	*164*	*175*	*191*	*209*
British wholesale price index	*152*	*160*	*159*	*178*
Export pig iron (in Swedish currency)	193	215	248	359
Mechanical pulp (in Swedish currency)	158	204	253	268
Chemical pulp (in Swedish currency)	184	254	287	283
Lumber (in Swedish currency)	149	155	154	172

As will be seen, the rise in the price of lumber lagged behind the rise in general prices in England. But, on the other hand, the rise in pig iron became, at last, double that of English wholesale prices, and this increase in pig-iron prices appears to have found its complete counterpart, if not to have been exceeded by that of iron and iron products in general; it may, therefore, be taken as an expression of the situation for almost one-fourth of the total value of exports.[9] That the great increase for the first three groups was caused by the violent increase in foreign demand it is impossible to doubt. Not only a great number of descriptive statements are evidence of this; there is also a corroboration of quite surprising strength in the fact that the prices of export goods in Swedish ports had grown on an average by 32 per cent above that of the year before, as against an increase for import goods of only 13 per cent; and this, be it observed, in spite of the great increase in freights, which was in itself a factor working in the opposite direction, increasing import prices and depressing export prices in Swedish ports, as has already been explained (page 167). Probably in this change in the strength of the demand for Swedish goods a principal cause has been found for the new relations between the rate of ex-

[9] Three groups in Swedish trade statistics, viz., iron and steel; iron and steel goods; and ships, vehicles, machinery, and instruments—in the exports for 1916—represented 24.7 per cent of the total. For the last year of peace the corresponding figure was only 19 per cent. It is also significant that the number of employees in the Swedish metal and engineering trades rose by 28 per cent between 1914 and 1917, as against 10 per cent for industry as a whole, and that the products of these industries did, in spite of that, show a sharper rise in price than the general price level.

change and the relative increase of prices within and outside of the country.

Export Duties.

The most important problem in monetary policy was not, however, the *cause* of this disproportion between the domestic and external valuation of the currency, but the phenomenon in itself. The high foreign valuation was so far a gain to the country, in so much as it constituted a very favorable relation between import and export goods; but this gain became illusory, in so far as an ever increasing part of the exports was not liquidated in any form, and assets were continually falling in value, even in Swedish currency, and far more in purchasing power. The exchanges did not show any ability to equalize exports and imports, and the problem of excess of exports became, consequently, more and more troublesome. This was connected with a problem which was, if possible, even more urgent than that, that of the increase in domestic prices themselves.

In this situation Professor Wicksell came forward with an idea which constituted a highly original and interesting solution lying outside of or parallel with monetary policy, with the intention of diminishing both disadvantages at the same time; it may, therefore, be mentioned here, though it led to no practical result. The idea consisted in duties on exports, the income of which would be used to lower the price of imports within the country. Through this a Swedish price level would be created which would be, so to speak, independent of the foreign one, and which would, none the less, leave foreign exchanges undisturbed; just as import duties or a premium on exports, in a way described before, would increase the domestic price level without depressing foreign currencies, so these combined export duties and premiums on imports would sink the price level without influencing the foreign valuation of the currency. By their aid there would be the theoretical possibility of keeping the exchange upon gold countries even at par, and at the same time forcing the Swedish price level all the way back to its pre-war level. A committee, with Professor Davidson as chairman, investigated the use of export duties, without particular reference to their influence on the general price level, and, consequently, without going into the possibility through their help of selling imported goods at a lower price; but it came to a largely negative result even with regard to

its own more limited object; and the writings of Professor Wicksell advocating his own complete plan did not go into the necessary practical details. No measures were taken.

Up to the spring of 1917 nothing, consequently, had been done which could even retard the fall in the Swedish value of money. The question now arises, to what an extent a better fate was awaiting Swedish currency after the band which tied it to gold had been wholly snapped.

CHAPTER V

THE GOLD EMBARGO IN ACTION

(From the summer of 1917 to the beginning of 1919.)

Increases and Decreases in Foreign Valuation.

THROUGH the second and last agreement between the countries of the Monetary Union the external conditions of a free currency had been created. So far did this become true that the increase in the discount on foreign currencies, before mentioned, went on with few interruptions till the beginning of November, 1917, so that they reached their lowest level at that time. In the course of eleven months dollars and sterling lost 29½ per cent of the value in Swedish money that they had had in December, 1916; and in November, 1917, they stood at an average discount of 32 and 34 per cent, respectively, the Swedish currency, consequently, being appreciated by 46 and 51 per cent as compared with dollars and sterling, respectively; on particular days the difference was even greater than that.[1] The strongest currencies quoted in Stockholm, except the Scandinavian, the Swiss, and the Dutch, stood at a discount of 20 and 26 per cent, respectively, showing an appreciation in Swedish currency of 25 and 35 per cent. The dissociation from the other countries of the Monetary Union was now so complete that their currencies had come to be at a discount of almost 14 per cent—or 16 per cent on particular days.

By November and December, 1917, this extraordinarily high valuation of the Swedish currency was beginning to grow less, however. During 1918 fluctuations were strong, as was often believed, by reason of Germany's selling out her foreign assets for political reasons on the exchanges of the neighboring neutral countries.[2] But particularly after the armistice in October, American, English, and

[1] The lowest dollar exchange quoted by the Riksbank, on November 2, 1917, was 2.34, representing a discount of 37.3 per cent; the lowest sterling exchange (on the same day) was 11.00, or 39.4 per cent discount. Quotations in the open market do not appear ever to have been below this.

[2] See the article by a correspondent of the (British) *Economist* for February 2, 1918, under the heading "The German Monetary Offensive," often quoted in Swedish discussions.

even French exchanges continued to rise, i.e., lost their discount as compared with all neutrals, not temporarily but permanently; and, at the same time, the value of Swedish currency also fell, as compared with Swiss and Dutch, Norwegian and Danish. At the end of January, 1919, Swedish currency was at a discount as compared with Switzerland,[3] and at the end of March or the beginning of April the same became the case for dollars and florins. From this point the Swedish embargo upon gold lost its significance, and so far the spring of 1919 marked an epoch in Swedish monetary history.

The Rise in Prices and the Increase in Note Circulation.

During 1917, but to an even greater extent in 1918, the internal deterioration of Swedish money was under way and this, up to the first quarter of 1918, even at an increasing rate, as a continuation of the tendency which had already begun at the end of 1915. In percentages of the price level of the preceding quarter the increase was:[4]

	1st Qr.	*2d Qr.*	*3d Qr.*	*4th Qr.*
1917	7.6	1.8	8.7	9.2
1918	12.1	8.5	6.0	5.4

An important change, as compared with earlier conditions, had begun in 1917. Note circulation now not only rose, and rose at a greater rate than before; it even rose considerably more than the price level, while the opposite had once been the case. The percentage increase of the two phenomena, comparing the last quarters of the years, were as follows:[5]

	1915	*1916*	*1917*	*1918*
Wholesale price index	29.2	34.8	30.2	36.0
Note circulation	7.1	24.4	39.3	47.0

Consequently, the note issue had increased during 1918 alone by almost half. At the end of this year (December) both series cul-

[3] Even in May and June, 1918, Swiss francs for a time had been at a premium in Stockholm.

[4] Cf. Diagrams II and III. From the beginning of 1918 monthly wholesale price figures appeared in the index.

[5] Figures for note circulation always are leveled and adjusted on the basis of seasonal variations. Cf. Diagrams II and III.

minated, the wholesale price index at 372 per cent of the pre-war level, and the note circulation at a total of almost kr. 800,000,000 with its index number at 353. As this will show, the development during these two years brought the two curves very much nearer to one another; the difference may be estimated to have been greatest during the first quarter of 1917, when the increase of circulation was only 82 per cent of that of prices, while during the last quarter of 1918 it was 93 per cent, and during the last month of the year even 95. For a time the two now had a tendency to go together, as Diagram III will show.[6]

The explanation of this change during the two last years of the War is not very easy to discover; but to clear matters up it is necessary first to investigate the remaining chief phases of the development.

Foreign Trade.

Taking up the changes in foreign trade, export of capital and relative import and export prices, the results are as follows:

With regard to capital export the situation was rather different during the two years 1917 and 1918, and 1917 will first come up for consideration. The Allied embargo upon Germany hit supplies for Sweden harder than at any time before or after, on account of causes which are given in the preceding part of the present work. Our exports were immeasurably less influenced by it, neither were they restricted to the same extent by the action of the Swedish authorities themselves. The result was a disproportion between imports and exports which can have had few counterparts. In the prices of the year the total value of the imports was not much more than half

[6] In this diagram the cost-of-living index has also been included; it began to be computed quarterly from the beginning of 1918, figures for three dates only being available before that time. Its usefulness for the period since 1918 is not very clear; it takes as its basis the expenditure of a pre-war household possessing an income of kr. 2,000, but is admittedly too low for the actual war period. For the after-war period something might be gained by combining the wholesale and the cost-of-living indices, however; but it is not easy to say in which proportion they are mutually to be taken into account for a comparison with note circulation, as the sparing use made of checks in Sweden, even after the War, also gives notes an importance in wholesale trade. The reader is referred to the curves for both in Diagram III, however, so that he will be able to judge for himself.

—56 per cent—of that of the exports, while imports, even in a year of such enormous exports as 1916, had been almost three-fourths—73 per cent—of them; and, in spite of a sharp fall in both branches of foreign trade, the value of the excess of exports in 1917 was kr. 591,000,000. In absolute amounts, it is true, this probably meant a somewhat smaller sum than the excess the year before, when the fall in the value of money is taken into account; and the same was, to an even greater degree, true of the total export of capital, because freight revenues had decreased on account of the embargo upon imports. When the total from this source of revenue, kr. 303,000,000, is added to the excess of exports, and the expenditures of shipping in foreign parts, kr. 94,000,000, are deducted upon the same lines as before, and another kr. 40,000,000 taken off on account of interest paid to foreign countries, the net result is an export of capital of kr. *760,000,000*. Even when the fall in the value of money is taken into consideration this was an enormous amount for a country which was, practically, or to a great extent, living under a blockade.

During 1918 imports set in again to a certain extent, under agreements with the Allied Powers, while exports were unchanged in monetary amount but considerably diminished after eliminating the rise in prices, so that the excess of exports disappeared to a great extent; it amounted to kr. 117,000,000 in the then very low value of money. On the other hand, shipping now revived and gave a revenue of kr. 551,500,000 in gross freight revenues, so that, after the usual deductions, a capital export of about kr. *460,000,000* resulted. This amount is very considerable, too, as compared with pre-war conditions, though in real value considerably less than half that of 1917 and little above one-third of 1916. Even at this point it can, therefore, be stated that the real war boom had ended long before the armistice.

While the production of industry had been reported as increased for the years 1915 and 1916, as has been mentioned before, the situation had become quite the reverse during the two last years of the War, so that the volume of industrial production fell to 91 and 76 per cent of that of 1913 for the years 1917 and 1918; the last-named figure certainly denotes an enormous reduction. As there was, at the same time, a sharp fall in agricultural production, total production can hardly have shown better results. When the great capital exports are added to this there are causes for very consider-

able increases in prices. On the same lines which have been given for 1916—insecure, it is true—the decrease of goods can be computed at about 21 per cent for 1917 and about 28 per cent for 1918.[7] It goes without saying that, even under unchanged monetary conditions, this would have resulted in a considerable rise in prices, namely, more than 26½ per cent and almost 39 per cent for 1917 and 1918, respectively.

The problem would be quite simple if the known figures only agreed with these results. But if that had been the case the results of decreased goods would have consisted in a rise in prices, amounting to about 126½ and 139 per cent of the increase of *note circulation*. Now, however, the situation was quite the opposite, as has just been shown, an increase of note circulation *above* that of the price level. The result of the decrease of goods is, of course, not disproved by this; but it is quite clear that strong forces of another character must have been at work at the same time.

The Reversal of the Trade Boom.

When the question arises as to the character of these forces the first point to be considered is the change in trade conditions which has just been mentioned; it was undoubtedly under way in 1917 and came into full swing in 1918; that is, a considerable time before the armistice played havoc with the reasons for the war boom and—what is even more remarkable—at a time when the rise in prices continued and had even become more violent than before. In view of the prevailing tendency in economic theory to explain the business cycle as simply created by changes in the value of money, this situation calls for particular attention.[8]

As is usually the case, the reversal began on the Stock Exchange; even during 1917 it was quite clear from most angles that the great boom had already begun to subside. The first half of June, 1917,

[7] Some minor changes have been made in the method of computation, especially by putting unassessed incomes at 20 instead of 10 per cent of the assessed ones.

[8] From some points of view it might be considered most natural to explain the situation by the supposition that the wholesale price index had shown a higher rise than the actual rise in prices. But this appears quite improbable in view of the fact that the note circulation now rose more rapidly even than the figures of the price index. If the price level had risen less than is shown by the index this fact would be even more enigmatic than it already is.

showed a strong setback, with small transactions and increasing supplies, as compared with demand, of scrip in several newly-started concerns, and an ebbing of the speculative fever. There was even a "black day." In the autumn the atmosphere changed again and all the typical features of speculation returned during the course of October. But this was short lived, and in its first number for 1918 the journal *Affärsvärlden*—which is also the source of the details just given—stated that the tendency to depression had already been going on for several months. During 1918 this was the situation from the beginning, so that the character of trade conditions left few doubts in the eyes of keener observers, though some speculative features remained during the first part of the year.[9]

The situation may also be given in more exact figures. On the basis of the index for Stock Exchange quotations, published in the *Kommersiella Meddelanden*, and comprising the so-called "A" list of the Stock Exchange, the highest figure for these securities, to which belonged all the speculative issues, had already been reached in April, 1917; every month during 1918 was below the corresponding one of 1917. The Stock Exchange index of the *Affärsvärlden*, which had quite another basis, did not show the high point till November, 1917, but after that dropped speedily and almost continuously. The total of transactions on the Stock Exchange was 20 per cent greater in 1918 than in 1917 if the change in the value of money is left aside; but upon a correct mode of computation a decrease of about 14 per cent is the result (Diagram XII). The situation was about the same with regard to the issues of shares (Diagrams XIII and XIV). According to unchanged figures their amount remained about the same from the last quarter of 1917 to the end of 1918; but on the basis of the new value of money the climax came in the second quarter of 1917 for the new issues of old companies, and in the fourth quarter for new ones. These statistics leave a great deal to be desired, it is true, partly because issue prices above par are not considered, partly also because amalgamations

[9] It is, consequently, a mistake to ascribe the change to the commercial agreement with the Associated Powers of May 29, 1918 (see Chapter VIII of the preceding part), by which increased quantities of goods were brought to Sweden during the second half of the year. It may, however, rightly be assumed that the greater emphasis upon the new developments of that part of 1918 is connected with this fact.

and reorganizations cannot be separated from new capital investments; but a concrete study leads to just the same result.

These developments were quite clearly connected with a change in the conditions of Swedish exports. From reasons which have already been given several times it is, as a rule, difficult to state the character of demand for our export goods during war and after-war periods by the help of any direct comparison between average prices for imports and exports, such as they appear in the statistics of foreign trade, because changes in freights cannot be eliminated. For 1917 this difficulty is so far decisive as the increase of inward freights, especially, exceeded everything which could ever have been imagined, as will be shown in detail a few pages later on, and resulted in a tendency to increase the price of import goods and depress export prices—all if reckoned in Swedish ports—as compared with what they ought to be in a true comparison. But between 1917 and 1918 the increase of inward freights was moderate, outward freights showing a somewhat decreasing tendency; and there is, therefore, no reason for supposing that freights had any strong influence upon the divergence of the relative prices of imports and exports between the two years 1917 and 1918. From such import and export figures as come to light in trade statistics, it is possible to come to fairly certain results even with regard to the first of these two years, when only the changes in freights are kept in mind.

The course of this development was, indeed, remarkable. In spite of the violent rise in freights during 1917 export prices rose by 34.9 per cent over the year before, as against an increase in import prices of 31.2. No doubt this difference between import and export prices is inconsiderable as compared with the figures for 1916 (32 and 13 per cent, respectively); but a very great part of this diminution of the spread between the two rates of increase must clearly be ascribed to the growth of freights, and the fact that the figures for 1917 at any rate show more increase in export than in import prices must, in the light of the enormous rise in freights, almost necessarily mean an increased demand for Swedish goods during the year 1917 taken as a whole, though it must be added that the fall in export volume may have contributed to the rise in export prices. But in 1918 the situation was quite reversed; for at that time the rise of export prices had dropped again to 18.4 per cent, while wholesale prices in general had increased by 31.9 per cent, or more than double,

and the rise in import prices was no less than 52.8 per cent, or almost three times that of export prices. There is every reason to suppose that such a violent reversal as this had been already in preparation during the second half of 1917, at about the same time as the first changes on the Stock Exchange.

This result is fortified by our usual comparison between, first, the Swedish and English wholesale price index, on the one hand, and developments in prices in the case of certain goods on the other.[10]

	1917				*1918*			
	1st Qr.	*2d Qr.*	*3d Qr.*	*4th Qr.*	*1st Qr.*	*2d Qr.*	*3d Qr.*	*4th Qr.*
Swedish wholesale price index	*225*	*229*	*249*	*272*	*305*	*331*	*351*	*370*
British wholesale price index	*197*	*212*	*211*	*219*	*224*	*229*	*234*	*235*
Export pig iron (in Swedish currency)	410	378	428	421	(418)	(403)	(387)	(384)
Mechanical pulp (in Swedish currency)	275	293	299	299	363	403	401	400
Chemical pulp (in Swedish currency)	283	279	264	256	259	264	274	297
Lumber	192	—	—	168	190	193	191	219

As this will show, that group which before had been increasing most of all was continuously decreasing during 1918, especially as compared with the Swedish price level. While the rise in prices for pig iron in the first quarter of 1917 was 182 per cent of the rise of prices, the group of metals in the last quarter of 1918 had fallen to 104 per cent of it. In order to avoid the risk of comparing figures not quite alike this may be changed and we may say instead that the above group of metals had fallen from 177 to 104 per cent of the rise in prices. Chemical pulp and lumber had increased inconsiderably and far less than the wholesale price level; only mechanical pulp followed, to a certain extent, though even that not completely, the general rise in prices. These results are confirmed by a number of concrete facts showing prices with the amount of orders and developments in production, perhaps, above all, by the fact that a very much diminished production, which now became general, could not create remunerative prices. To sum up we may say what was said in the *Affärsvärlden* of March 20, 1918, "that the situation of export in-

[10] For export pig iron, figures for only four months of 1918 are available. But their character appears to be so undoubted and, broadly, so like that of the group of metals in the Swedish wholesale price index, that this series has been inserted as a substitute in the case of 1918, in spite of its being governed by pig iron for the home market (Diagrams VII and VIII).

dustries had become worse, the amount of orders had decreased, and that it had become necessary to store goods and to restrict output." The only standing exception to this was dry mechanical pulp—in agreement with our price table, the figures of which refer to dry mechanical pulp—while wet pulp showed the same course as other export commodities.

The change in trade conditions appears then to have had its immediate cause in the changed situation of export markets; and considering the importance of exports in Swedish economic life during the foregoing years there is nothing unnatural in this. This is, of course, particularly true of the period of the armistice; but, as a matter of fact, it had begun almost a year before.

So far as one can see, this is at least the principal explanation of the fact that the rise in prices in 1917, and even more in 1918, was less than the increase in circulation, i.e., that the velocity of circulation of money decreased; for, as will appear from the introductory chapter of this part of the present work, such is the usual development during depressions. But the remarkable thing is that this accompanied a strong rise in prices, and points to the conclusion that what influences velocity of circulation is not so much a change in prices themselves as general trade conditions.

A possibly contributory cause to the change in monetary conditions may have been the fact that the earlier and marked increase in current bank accounts (see above, pages 175 and 202), as compared with note issues, had now practically disappeared. This may, in itself, have been the result of the change in business conditions; but another reason for it may have been the changed character of the note issue, as this was now principally made use of by the State directly, for financing the very expensive State Commissions for Food Supply and for Fuel Supply, which we shall go into later on. It must be said, however, that though this explains why the earlier increase in the velocity of circulation had disappeared, it is hardly an explanation of the direct decrease in velocity. The explanation given in the previous paragraph is, therefore, probably the most important. But there is a great deal still to be explained; for the change must have been considerably greater than is shown by the coming together of the curves for the increase in prices and of note circulation (Diagram III), as the scarcity of goods had, at the same time, increased more than ever before in the memory of men.

The Rate of Exchange and Price Levels.

The unexpectedness in the situation is not limited to the relation between changes in prices and note circulation, however. The two remaining factors influencing monetary conditions, i.e., the rate of exchange and relative price levels, also show an unlooked-for mutual development. This is the case in spite of—or, if you prefer, on account of—the fact that the relation of these factors was changing in the same direction as during the earlier parts of the War, though at a rate which had become stronger than ever. The latter half of 1917 presented the most complete confutation of the theory of a necessary identity between the rate of exchange and relative price levels. For while the increase in Swedish prices during the last quarter of 1917 rose to 124 per cent of the British, or consequently one-fourth *more*, sterling exchange was at a discount of 29 per cent, or consequently *lower* by three-tenths. The Swedish rise in prices would only have been 55 per cent if the increase in English prices in connection with sterling exchange had been a deciding factor; while, as a matter of fact, it was 172 per cent. And, inversely, sterling exchange would have been at a *premium* of 55 per cent, instead of being at a discount of 29 per cent, if relations between price levels had governed the rate of exchange. Diagram IV will also show how relative increases in prices and sterling exchange did not only drift more and more apart, but even rapidly took opposite directions. During the following year, 1918 (Diagram V), developments were sometimes in the same, sometimes in the opposite, direction, but the absolute distance between them continued to increase; and, relatively, it at least did not diminish.[11]

Freights.

As a decrease of demand for Swedish export goods must be regarded as unquestionable during 1918, there must have been other factors which counterbalanced the influence of that factor on the

[11] While the relation between the Swedish and the English price index, multiplied by sterling exchange, was 1.75 during the last quarter of 1917, it was, during the four quarters of 1918, 1.72, 1.89, 2.00, 1.74, respectively. During the third quarter of 1918 the Swedish price level was, consequently, according to these figures, *double* what it would have been on the supposition of an identity between the rate of exchange and the relation of price levels—this even irrespective of any differences in basic years.

exchanges. That such is the case there can be no doubt; and the factor is to be found in the enormous rise in inward freights, as compared with outward, and in the embargo upon imports. And there is nothing surprising in a situation in which these influences became stronger than the contrary ones, i.e., increased the price level relatively to exchanges. The development of freights is of such enormous importance when dealing with this period that it may be handled with greater thoroughness.

It will be found from Diagram X that coal freights (inward freights) during both 1917 and 1918 rose to the almost incredible figure of 36 to 37 times their pre-war levels, while the figures for lumber freights (outward freights) were "only" 8½ times what they had been. These figures are only annual averages, however, and they appear on first view so improbable that some further investigation would seem to be called for. And though it meets with unexpected difficulties, the data are so uniform in character that the conclusions cannot be in doubt.

Looking first at coal freights, the same violent increase is shown for both East and West Coast shipping; in both cases there are two maximum points—during the latter part of the summers of 1917 and 1918. From the East Coast of England (E.C.C.P.=East Coast Coal Ports) to the Swedish East Coast (principally Stockholm), freights per ton rose from between kr. 26 and kr. 33 during the second part of 1916 to kr. 100 in the middle of March, 1917; from that point to kr. 191 in June and July, culminating in the middle of September at kr. 216. A rather inconsiderable fall during the next half year was followed by a new increase from March, 1918, and a culmination at kr. 222.50 in the middle of August, 1918. After that the decrease set in for good and had brought down freights to kr. 77.50 about the end of the year 1918. The figures for coal freights upon the West Coast of Sweden are more reliable because shipping was more continuous there; they are very much alike, as will appear from a table which will be given upon page 227.

In comparison with these fantastic increases, the quotations for lumber freights are almost undisturbed, and their maximum occurred earlier. While they had stood, in the last quarter of 1916, at from kr. 65.50 to kr. 72 per standard, from Gothenburg to English East Coast ports, they increased to kr. 270 in the middle of May, 1917. Then they fluctuated between 122 and 191 until the spring of

1918, when they began to fall sharply; and by about the middle of the year they appear to have gone down to kr. 100, where they seem, broadly, to have remained till about the end of the year. On this basis the following table has been compiled, showing monthly index numbers on the basis of the fourth quarter of 1916 representing 100. It will be found how coal freights in the course of three quarters rose to six or seven times their level at about the end of 1916, while lumber did not rise more than two and two-thirds above the same point; it is also shown how inward freights once more reached the same height a year later, while outward freights fell after the second quarter of 1917.

Month	*Coal E.C.C.P. to West Coast of Sweden*	*Lumber Gothenburg to E.C.C.P.*	*Coal E.C.C.P. to West Coast of Sweden*	*Lumber Gothenburg to E.C.C.P.*
	1917		*1918*	
January	125	95	—	248
February	—	—	550	263
March	333	—	533	266
April	458	365	547	279
May	600	394	608	245
June	637	326	642	201
July	603	263	675	153
August	658	224	667	153
September	658	264	492	139
October	633	252	375	139
November	642	182	158	124
December	628	178	183	88

These figures have not been brought into connection with the pre-war situation on account of a lack of more precise parallels for 1913-1914. Neither have the source materials at hand been brought into the form of tables on this account, but the general tendency is quite clear. Coal freights had already—in May, 1917—reached 34 times pre-war figures. During the following half year this had risen to 39 times. And in August, 1918—incredible as it may seem—the showing had become about 40 times what it had been before the War. Lumber freights, on the other hand, were, even at their highest from June to October, 1917, only from 10 to 12 times their pre-war level and lower than in 1918.

These facts leave hardly any doubt as to the conclusion that a principal explanation of the violent rise in Swedish prices and note

circulation, compared with exchanges during 1917-1918, was an enormous disproportion between the increase in inward and outward freights during the period.

But this holds good only with regard to the two years 1917 and 1918 taken together. The question remains, how it was possible for rates of exchange and relative price levels to swing at least as far apart during 1918 as during 1917, though the decrease in the demand for Swedish goods was much greater in the second year, and though the imports also began to enter in during 1918, as is explained in the preceding part of this volume, so that two factors were working together to *lower* the foreign valuation of the Swedish currency. As to the last-named factor it may be pointed out, however, that the first cargoes set free for importation into Sweden as a consequence of the Commercial Agreement of May 29, 1918, did not reach Sweden till the end of August; and before that date imports remained very scarce. But this is certainly an insufficient explanation. The principal reason undoubtedly is, once more, the course of inward and outward freights. For, if their interrelation is worked out on the basis of the table just given, it will be found that every month, for which figures are given, shows a far higher ratio of inward to outward freights during 1918 than during the preceding year, with the exception of the two last months of both years, when the situation was completely reversed. For quarters the result is as follows:

	1917	*1918*
1st quarter	(1.32)	(2.08)
2d quarter	1.56	2.48
3d quarter	2.55	4.12
4th quarter	3.11	2.04

Consequently, there is little more than the last months of 1918 to be accounted for by other factors; in November and December the ratio of inward to outward freights was 3.53 (for both months) in 1917, as compared with only 1.29 and 2.08, respectively, for 1918. As will be seen from Diagram V there was also a slight diminishing of the distance between the curves for sterling exchange and relative price levels in these months; while the index numbers for sterling exchange and the relative rise in Swedish prices had been 75.1 and 150, respectively, in the third quarter of 1918, the figures were 90.3 and 157 in the fourth quarter. But it is not very

probable that this is the whole story. Far more probable is it that, even in 1918, forces were at work which did not bear fruit before the year after; i.e., the increase in prices influenced exchanges only after that time, so that the reversal was deferred to 1919. It is very difficult to solve problems of that sort because a world in dissolution, like that of the last year of war, reacts more slowly to such changes than economic life in a comparative equilibrium. The explanation will be practically the same if it is said that speculation upheld the foreign valuation of Swedish currency longer than would otherwise have been possible; the precipitate change in the rates of exchanges in the autumn of 1918 also points to that conclusion.

Monetary Policy.

Our object will now be to make clear the monetary policy followed by Sweden, and its relation to the facts which have just been set down.

Among the many phenomena connected with the monetary situation, exports of capital first gave rise to State intervention. The new Government, which had come into power at the end of April, 1917, had taken an initiative which, in the first part of September, led to the appointment of a so-called Financial Council, under the chairmanship of the Governor of the Riksbank, which was given the task of supervising capital exports; and a circular issued by the directors of the Bank stated, in general terms, the rules it would work under. To what extent this action changed the trend of history it is impossible to decide. But it seems to have had no great influence, as capital exports continued to about the same extent as might have been expected from the weakening of the demand for Swedish export goods; against this must be weighed, however, the political pressure which was year by year being brought to bear to an increased extent, and which, in 1918, led to the creation of a semi-official company to carry on the same work of supervision.

At all events the creation of the Financial Council is an insignificant item in the development of Sweden's monetary policy, and its other phases principally call for consideration.

The efficiency of the gold embargo as against the neighboring countries is apparent at first glance from the fact that the gold reserve of the Riksbank did not show any increase in Scandinavian coin after 1917, but, during 1918 and 1919, even showed a decrease,

which was not much less than the amount of gold which was given out to industry; the influx of Danish and Norwegian notes had also quite naturally disappeared when they no longer had a value equal to Sweden's. But the gold purchases of the Riksbank went on none the less, though now completely voluntary; allowing for the amount of gold withdrawn for the uses of industry, they may be put at more than kr. 51,000,000 during 1918; and they were made most largely during the second half of the year.

The Right of Note Issue.

The explanation is not far to seek, but very characteristic of the situation. The unprecedented increase in circulation now began to have its effect on monetary policy itself; for this increase had greatly reduced the relative amount of the gold reserve and pressed the Riksbank ever nearer to the limits of its right of note issue. Even during 1917 the relative gold reserve, in spite of both voluntary and involuntary imports of gold, had been falling, so that the annual average sank from 49½ per cent in 1916 to 45½ per cent; and during 1918 this trend continued at an increased rate from the beginning of the half year, so that not even imports of gold could keep the annual average from going down to 40 per cent and, in the last months of 1918, to between 35 and 36 per cent. This in itself was of no importance, especially in the case of a currency unconnected with gold; but the legal stipulations as to the gold reserve had, nevertheless, an object from a Swedish point of view, i.e., to maintain the value of money; and the controllers of the Bank had, on this head, reason to heed the signs, though certainly not in the direction of importing gold.

Imports of gold, moreover, became insufficient to admit of a note circulation as great as the Bank had permitted; the limits to the note issue in their existing form remained, even on the basis of an increased reserve, an obstacle to a further increase of notes. By the autumn of 1917 the unused note issue had fallen to a quite insignificant amount—in the preceding chapter it has been said that this made the Riksbank purchase large amounts of Scandinavian gold coin in order to lose no time in increasing the gold reserve—and during the spring of 1918 the unused note issue disappeared almost completely; on some days it was below 1 per cent. The question now arose whether the stipulations with regard to note issues, the only

regulator of the value of Swedish money which had been allowed to remain, would be able to enforce measures for the preservation of monetary stability.

As a matter of fact, this did not come for a long time, however. To begin with, there was the possibility of falling back upon that amendment to the law which had been made in 1915, and which has been mentioned in its own place—to empower the King and Parliament to allow an increase in the note issue, without an increase in the reserve, of kr. 125,000,000 over and above the pre-war figure; but it was quite apparent from the beginning that this increase would become insufficient unless the increase of notes was stopped. The officials of the Bank, consequently, addressed the Government on May 15, 1918, and asked not only the bringing into action of the 1915 amendment, but also for a new law empowering the King, before the next session of Parliament, to permit a *further* increase of kr. 125,000,000. The motives given were the old ones, that "no effective limitation of the note issue of the Riksbank would be possible by increasing the bank rate, under the present conditions, which were quite abnormal, unless rates were introduced which would lead to a complete paralysis of great fields of economic life, upon which the country was dependent." The bill was duly introduced by the Government and became law, though four Social Democratic members of the Parliament's Standing Committee on Banking dissented and would not accept the new and second increase of kr. 125,000,000. Public discussion of monetary questions had by now, moreover, had such effect that the new increase, even in the opinion of the Minister of Finance, must give concern. But his conclusion was limited to the need of an investigation *after* the bill had been carried. To start with, the first kr. 125,000,000, on the basis of this attitude of Parliament, was granted on June 20, 1918. But, as in the autumn of 1918, the unused note issue, in spite of this increase, fell to an even lower amount than it had the year before, the bank officials availed themselves of their last resource and prevailed upon the Government, December 20, to grant them another increase of kr. 125,000,000. Any compulsion to counteract the increase of notes and of prices, by measures of corresponding strength, was thereby removed from the Bank. At the same time the War had ended, and developments now proceeded, for some time, in the opposite direction.

The Credit Claims of the State.

To those factors which had, during the earlier years of the War, played a principal part in the depreciation of Swedish money, there had now, particularly during 1918, been added another, the importance of which, up to that time, had not been great in Sweden as compared with the belligerent countries, i.e., the need felt by the *State* for procuring means of payment. This, quite naturally, was connected with that enormous extension of State action which took place in Sweden as in almost every country during the War, and chiefly in the direction of procuring food and other commodities and distributing them through extensive State Commissions; to these bodies the Fuel Commission had been added in 1917. And, like the Food Supply Commission before it, it had made enormous demands upon floating capital. The credits to foreign countries, which had now been made a political demand by the belligerents, also played their part. At the same time, the State was unwilling to pay the high rates of interest necessary to the procuring of capital through a funded debt; and, consequently, the floating indebtedness ran into amounts hitherto unknown. Between the ends of the years 1913 and 1917 the funded debt had grown by kr. 380,000,000, and the unfunded by kr. 120,000,000 (the latter being quite insignificant, or kr. 20,000,000, before the War)—that is, by kr. 500,000,000 in all. But 1918 showed quite as great an increase as the foregoing four years taken together, irrespective of the change in the value of money, it is true; and what is even more important, there was an enormous preponderance of floating debt. A perpetual loan issued early in the year failed to a great extent, and even such a questionable attraction as a Lottery Loan brought in little. The State then had recourse to short-term borrowings, so that these at the turn of the year amounted to no less than kr. 559,000,000, having been even more at an intermediate date.

There was a wide-spread opinion that demands of the State upon the Riksbank constituted one of the principal reasons for the increase of notes; and in order to avoid this consequence the Government found it necessary to change the character of its financing. By an agreement with twenty-three private banks a credit of kr. 550,000,000 was given by them to the three most gluttonous Royal Commissions, the Food Supply, the Fuel, and the Industrial Com-

missions. As a matter of fact, the importance of this change was greatly overrated, however. As was said in the course of a debate in the Upper Chamber on the credit (June 12, 1918), the private banks had already yielded most of the credits which had been taken up by the Public Debt Office on the part of the Commissions, only with this difference from the new order of things, that the Riksbank had, at that time, acted as a middleman. But quite irrespective of this, the demand for credit on the part of the State must surely increase the total amount of credits, unless measures were taken correspondingly to restrict credits to private persons, and this quite irrespective of the fact whether credits were given to the State through the Riksbank or through the private banks.

Discount Policy.

The next question then is whether such a restriction did really take place. The point of view of Riksbank officials, which had been emphasized once more when they asked for an increased note issue, i.e., that the discount policy had lost its efficiency, did not lead people to expect any measures for maintaining the value of money. The Bank was, furthermore, given unexpected help from earlier and keen critics, on the ground that the weapon of the rate of interest was inefficient when it came to restricting the demands of the State; from this genuine premise they drew the false conclusion that the rate of interest was wholly inefficient under existing conditions, i.e., they denied the possibility of restricting credits to private persons as an alternative to a further increase of the volume of money.

What is more surprising is that the Bank's controllers found any reason for changing the bank rate at all. Probably the disappearance of the unused note issue was what influenced them in that direction; for the rediscount rate for the private banks was first taken away on September 21, 1917, which meant an increase of ½ per cent; after that—a week later—the rate was everywhere increased by ½ per cent, making it 6 per cent; and, finally, there was a further increase of 1 per cent in another ten weeks. On February 1, 1918, however, this was in part annulled, the rate being again lowered to 6½ per cent, in spite of the unprecedented increase of notes. This probably represented a tendency borrowed from the belligerents to favor new State loans by a lowering of the bank rate and a deterioration of money, for a new perpetual loan was issued in the

same month. This issue having failed, to a great extent, the bank rate was again raised (March 21, 1918) to 7 per cent, and remained at that to the end of the period under consideration in this chapter.

It was impossible to discern any results from the increases of the rate which had taken place. The *Affärsvärlden* expressly stated, when speaking of the increase to 6 per cent toward the end of 1917, that it had had no influence upon speculation; but that trade journal regarded the increase made at the end of March, 1918, as "restricting" the Stock Exchange which, at that time, as we know, had shown clear signs of depression. Yet even in this case no influence upon note circulation and price level was in evidence. So far the facts might be adduced in favor of scepticism with regard to the influence of the bank rate upon the value of money and the note circulation. The other side in the controversy rejected this inference, however, on the grounds that the increases were too small and too timid to accomplish their purpose—the latter point of view being probably the most valid. For, as was especially emphasized by Professor Davidson, the raising of the bank rate in itself was not enough; so long as business counted upon a continuation of rising prices it expected to derive its biggest profits—partly real and partly nominal—precisely from this rise; and no change for the better was, consequently, to be expected before the Bank had been able to convince the business world that the increases in the bank rate would continue up to the point where increases in prices were stopped. But such great results were not to be expected from dubious and inconsistent measures.

In accordance with his statement the Minister of Finance in June, 1918, instituted the first official investigation into the monetary situation and its consequences, appointing for the purpose three professional economists and three private bank directors, under the chairmanship of the Governor of the Riksbank. This committee reported six weeks afterward. Though the bankers and the economists in discussing the situation followed lines which never met, they were able to agree upon a rather original proposal, described by them as "in a sense, a qualitative rationing of the capital requirements of the country." Their intention was to strike at certain particular uses of capital—this was the meaning of the words "qualitative rationing"—and their plan so far associated itself in the first place with that regulation of foreign credits which was the

immediate purpose of the Financial Council. A limitation of the total amount of credit to such an extent as would ensure a stable value to money (as was, later, largely accomplished by the policy of the Federal Reserve Board) would clearly have been something different; and the proposal, as a matter of fact, gave no guarantee of this.

The report was not acted upon in its original form, however. The Riksbank now desired to get power into its own hands; and after having sent out a new circular to private banks asking for their assistance, a so-called Capital Control Board was established in October, 1918; it consisted of four representatives: the Riksbank, the Bankers' Association, the General Export Association, and the Industrial Association. Its power was to be limited to the creation of new companies and new capital issues of companies, as also issues of bonds for at least kr. 100,000—naturally not those of the State. This plan was considerably more restricted than the original proposal, and particularly remarkable is the restriction which consisted in leaving banking credits aside. How far the Board became of any importance it is impossible to judge, especially as the situation was completely changed, almost at the precise moment of its creation, by the armistice and the sharp rise of foreign currencies.

All the different attempts to prevent the destruction of the value of money, consequently, with few exceptions, fell to the ground. And as the result of the period of an efficient embargo upon gold there remained a situation, the character of which showed that very little of what that great experiment had been meant to create had been accomplished. As an epilogue to this remarkable episode in the history of money it must, however, be emphasized once more, that nothing supports the view that the situation would have been a better one, or even as good as it was, if there had been no embargo upon gold. The divergence in the course of the internal and the external valuation of the Swedish monetary unit would, to all appearances, have been in that case about the same as it became in fact; and as the exchanges upon countries which had kept their currencies at par, as compared with gold, would then have remained at par, the consequence would have been an even greater increase in domestic prices than that which really took place. But, it is true, nothing could be achieved by simply snapping the tie which bound currency

to gold; positive measures were needed. The extremely difficult import and export situation, in connection with the insistent demands for credits by the belligerents, made the difficulties of the task to the Swedish authorities quite exceptional—and they did not prove equal to their task. No reply, therefore, could be given to the vital question as to whether a currency which had broken off all formal connections with those of other countries could maintain itself independently of the upheaval which existed in the rest of the monetary world.

CHAPTER VI

FROM THE END OF MILITARY OPERATIONS TO AN INTERNATIONAL GOLD STANDARD

(The beginning of 1919 to May, 1925.)

After the end of military operations there was a speedy end of those phenomena which had given Swedish monetary conditions their exceptional position. Though very far from simply reproducing developments in other countries, the Swedish monetary system fell to a far greater dependence upon that of the rest of the world, especially in the beginning, than had been the case during the War; its story is of less interest, therefore, than once it was. The course of events during 1919 principally illustrates the return from war-time conditions, while the first half of 1920 serves as a background for the results of the great fall in prices which followed in the autumn of the same year. These two periods—1918-1919 and 1919-1920—were almost diametrically opposite in character.

The Decrease in Foreign Valuation and the Fall in Prices, 1919.

What first took place was a notable, not to say violent, disappearance of the disproportion between the variations in the domestic and external valuation of Swedish currency. This was inevitable because the old situation with regard to imports, exports, and freights had disappeared; but it might have taken place, theoretically speaking, in three different ways, first, through a fall in domestic prices, without any decrease in the foreign valuation of the currency; or, second, through a marked fall in the foreign value of Swedish money, keeping the price level constant; or, third, through some combination of the first and the second. The third was the course it actually took.

It has already been said that Swiss francs had risen to a premium in Stockholm by February, 1919, and that they were followed about the end of March or the beginning of April by dollars and florins. This went on and the movement was a rapid one. Swedish currency, the premium on which, two years before, had been the highest, or one of the highest in the world was, by the end of 1919, at a discount of

more than 20 per cent as compared with dollars, which might roughly be said to represent gold. That discount continued during the following year and reached its low point in February, 1920, when the monthly average represented a depreciation of almost 31 per cent—individual days showing even a lower point. As compared with sterling the situation appeared more favorable, for sterling had also fallen greatly, as compared with dollars, when exchange had ceased to be "pegged." Not before the second half of May, 1919, was English currency at par in Stockholm, and there was not much of a premium on it during the following year.

But, as has already been said, Sweden did not escape the fall in prices on that account. While Britain—according to Mr. Sauerbeck's index—saw an insignificant fall in prices of 6 per cent during the first four months of 1919, and immediately afterward experienced an even stronger rise, and developments in the United States were about the same, the Swedish wholesale price index fell almost continuously until October, 1919, or by 17½ per cent in all. As late as the beginning of 1919 between the percentage position of sterling exchange and the relative rise in Swedish prices there had been about the same enormous spread as before; but the double change which went on during all of 1919 was so great that there were no peculiarities to account for at the end of the year (Diagram V).

It goes without saying that this fall in prices in connection with the end of the real war boom must present symptoms of depression. They made themselves felt in the first place on the Stock Exchange; the great rise there had ended during 1918, and during 1919 the fall was almost as violent as the rise had been. Transactions fell off by two-thirds, whether the change in the value of money be eliminated or not (Diagram XII); quotations then continued their downward course, and the average for 1919 was a little less than four-fifths of that of 1918. Stock issues decreased at about the same rate (Diagram XIV). On the other hand, production was not greatly affected, and the increase in unemployment, though noticeable, was not disquieting.

The reasons for these developments are not far to seek. The character of foreign trade had been almost completely reversed, as was only natural, by the new political situation. This does not pointedly refer to the relative demand for import and export goods, though

even this factor may have been of importance and must be considered. And it does not answer the last fact to say that import prices dropped almost three times as much as export prices, or 11.09 per cent and 3.89 per cent, respectively, in 1919.[1] For this might have been, and as a matter of fact was, the result of an enormous fall in freights. Looking at the prices of the most important export goods (Diagram VIII), the general tendency to a fall in prices, as compared with 1918, is unmistakable during the greater part of 1919, even if lumber be an exception; and it is somewhat greater than the fall in the general level of wholesale prices. This change, however, is far too insignificant to explain the reversal.

But the explanation is at our hand, and it lies in a fact which also explains a great deal of the new demand for foreign goods. It is the disappearance of obstacles to imports, which caused an enormous inflow of foreign goods, and produced an excess of imports of no less than kr. 958,000,000 in 1919, not much below the excess of exports of both the preceding years put together—omitting freight revenues in both cases. It acted almost like the change from a system of prohibitive import duties to something very like free trade, for Swedish import duties had, for the greater part, been brought down to something like one-third of their original amount through the fall in the value of money. The Swedish price level was then far too high, as compared with the foreign valuation of Swedish currency, and must have constituted a strong inducement to import goods, one of the means by which price levels and rates of exchange could regain their equilibrium on the basis of free international intercourse. In so far as coal and lumber freights continue to be representative, incoming freights dropped between 1918 and 1919 by more than two-thirds, and outgoing by not more than half; and this made its influence felt quite irrespective of the fact that incoming freights remained at more than double their figure before the War (Diagram X).[2]

[1] These figures must not be compared with the figures for the fall in the level of prices; for the fall in general prices does not refer to the averages of 1918-1919, which is, on the contrary, the case with regard to import and export prices.

[2] The following table for coal and lumber freights per month during 1919 is taken from the same source and constructed upon the same plan as the table on page 227.

	1919			1919	
	Coal Freights	*Lumber Freights*		*Coal Freights*	*Lumber Freights*
January	203	62	July	100	153
February	170	77	August	103	151
March	158	91	September	183	157
April	158	120	October	—	157
May	140	139	November	—	161
June	117	139	December	—	142

This shows that not only did coal freights fall sharply before September, 1919, but also that lumber freights, at the same time, rose quite as much as coal freights fell, so that the two groups showed the same amount of increase over 1916 even in May, and outward freights rose considerably more after that time. But even more important than this was the disappearance of the embargo upon imports, which was probably the most important of all reasons for the change.

This great inflow of goods from foreign countries caused a great deal of anxiety in many quarters; in the case of manufacturers and farmers the real reason, though an unconscious one, was probably, first of all, the fall in prices which could not be openly combated, though it would always be felt as a great inconvenience. The great increase in imports had been foreseen by the Monetary Commission appointed in 1918, and had caused it to propose an official control of imports after the end of the War; and quite naturally claims for prohibition of imports or protective duties were put forward by manufacturers. It appears distinctly probable that the fall either in the internal price level or in the premium upon foreign currencies might thereby have been diminished; but, in that case, this would have been attained by creating a "protection against the economics of peace," i.e., by retaining more or less of the isolation of war-time. That a great deal might have been saved to the country if the fall in prices could have been foreseen is undeniable; but it was not foreseen. The wishes of the great majority of the people to provide themselves with numbers of things must, besides, be considered as natural, to say the least, after they had had to endure scarcity caused by the fall in the value of money and in real wages, the profits of which had almost completely gone to other classes.

It would, besides, undoubtedly have been possible to prevent the discounting of Swedish currency even without blocking imports

but, in that case, with, as a consequence, an even greater fall in prices than actually occurred. That Swedish currency depreciated as compared with gold and dollars resulted, to all appearances, from the discount policy of the Riksbank. On April 25, 1919, when the dollar was already at export specie point, the Riksbank reduced the bank rate by ½ per cent, and on June 13 this was followed by a second and a like reduction, or to 6 per cent. The note circulation was mainly on the downward road all through the year—indexes for prices and circulation were nearer one another than they had ever been since the beginning of the War (Diagram III), or were ever to come again. If the object of the Riksbank had been to keep the price level and the note circulation constant, this lowering of the bank rate would have been quite natural; it would then have meant that gold parity was to be sacrificed to the interests of a constant price level, little below the highest which had existed during the War. But the officials of the Bank had never admitted the possibility of doing anything like that; and such an idea was certainly quite alien to their thoughts. To judge from the utterances of the directors of the Bank themselves, they were probably influenced by their unchanged belief in the inefficiency of the bank rate, strengthened by the argument that the expenditure of the State could not be influenced by it. The latter point of view, to a certain extent, fell in with the opinion of various people, that the inefficiency of the bank rate, as compared with the claims of the State, made a high rate hurtful to economic life. If the control of the note issue, which had been in effect as late as the beginning of June, 1918, had remained unchanged, however, the policy of the Bank would have been impossible, for often the extra note issue of kr. 125,000,000 had to be made use of in part. The second increase, after a renewal to a smaller amount (kr. 50,000,000), had, on the other hand, disappeared after July, 1919. It is also possible that the ability of the Bank to function without the help of the latter amount may have caused the lowering of the bank rate.

The New Fall in the Value of Money, 1919-1920.

During the last months of 1919 the economic situation of Sweden was once more completely reversed. We are here approaching the strange after-war boom which had now reached our country. In

England and America its character was not new, though its extent was, to a certain degree; for price levels had there been rising since early in the summer of 1919, and had reached far higher figures than the highest of those of the War. In Sweden the price level, on the other hand, first rose slowly and not till November, but became ever more rapid, so that the increase of wholesale prices from January to June, 1920, when it culminated, was no less than 15 per cent in five months, of which almost half, or more than 7 per cent, occurred during a single month, February, 1920. The result of the fall in prices during 1919 was almost completely obliterated in the course of less than half the time it had taken to bring it into existence; and the highest price level during the War was almost reached for the second time.

This was rather a typical boom and was characterized mainly by the violence which goes with such a period under very unstable monetary conditions. The note circulation showed no very remarkable increase before April, 1920, and even its highest figure, the index of 343, which was reached in August, was a little below the figures at the turn of the year 1918-1919—or from 347 to 353, that is, while the price level was about the same as that of this date (Diagram III). As is usual in such cases, this was the result of orders or a demand for goods which had not yet resulted in actual payments, and was probably also helped on by an increased velocity of circulation of money. In the labor market the reversal was strongly felt, the Stock Exchange, on the other hand, being unaffected, save for a marked increase in the volume of transactions and a moderate rise in quotations during the first quarter of 1920.

Nor is it difficult to assign the source of this influence; and a glance at Diagram VIII gives the explanation. An increase in the prices of some Swedish export goods, especially mechanical and chemical pulp, as violent as that which began during the last months of 1919, and which culminated in the summer of 1920, had not been seen even approximately during war-time; dry mechanical pulp reached nine times, and strong sulphite seven times, their pre-war levels. The same was the case, though in a smaller degree, in the case of pig iron and lumber, so that all export goods in the Diagram showed a greater increase in prices than that of the price index (Diagram VIII). The likeness to war-time conditions is also marked by the fact that the Swedish price level began to rise, as compared with

British sterling exchange, the exchange remaining at first unchanged and afterward going against Britain (Diagram V). On account of the sensitiveness of Swedish export goods to changes in the business cycle, Sweden is always exposed, to an even exceptional degree, to the danger of being affected by international cyclical changes, even when its currency is unconnected with that of other countries.

It is a foregone conclusion, it is true, that these phenomena need not, theoretically speaking, have had any influence upon the Swedish price level, as Swedish currency was at a great discount, and that there was, consequently, room for a strong increase in value as compared, for example, with dollars, before reaching parity, even leaving aside the possibility of exceeding it. That the price level was not kept down was the effect of the discount policy, which allowed prices to increase rapidly, while the currency had lost a great deal of its legal value in gold; and the only thing which can be said in defense of such a condition is that the pressure of the export trade boom was great. This is a striking illustration of the fact that even a free currency, which theoretically has a chance to escape being influenced by changes in the purchasing power of gold, is seldom allowed to profit by this possibility, when the purchasing power of gold is falling, because the discount policy is usually influenced, in the direction of decreasing the value of money, through the monetary policy of gold-currency countries, instead of following the rules of a free currency. In this case the exchanges were allowed to remain unchanged, sterling exchange remaining about par through the first half year of 1920, and dollar exchange having its premium raised even at an increased rate at the same time as the rise in the price level took place.

It needs no explanation that this course of things must have caused much concern and must have appeared far more indefensible than it was in war-time, for at that time the embargo upon imports and the almost compulsory credits to belligerents created difficulties in the way of a sound monetary policy which had now disappeared altogether. It could not, in such a situation, fail to be noticed that the Swedish monetary system had been allowed to retain the convertibility of the bank note. This appeared rather useless, it is true, in so far as the prohibition of the export of gold was still in force. But it was none the less a remarkable situation that the notes of the Riksbank remained convertible in gold to an amount which, meas-

ured by the dollar or the value of gold upon the world's markets, was, estimated from an average taken in February, 1920, at 45 per cent above that of notes, and that, consequently, something of much greater value, though this could not be realized at the time, might be procured simply by demanding gold in exchange for notes. As a matter of fact, the gold reserve of the Riksbank had slowly diminished from kr. 300,000,000, at about the end of November, 1919, to kr. 265,000,000, at the beginning of March, 1920; and even if the greater part of this decrease consisted in exports on behalf of the Riksbank itself—kr. 27,000,000 out of kr. 35,000,000 had been exported, or kr. 9,000,000 a week in the case of three different weeks—it is possible that a small trickle of gold was flowing out of the Bank to be hoarded or smuggled.

This anomalous situation, making it possible to put pressure upon the Riksbank, was pointed out by the present writer in an article in one of the leading Stockholm papers about the middle of March; and, under the influence of this, gold to some extent was withdrawn from the Bank. But the bank directors instantly met this device by demanding, on the very day of the publication of the article, a measure making its notes inconvertible; and after heated debates, continued for several days, Parliament passed this amendment. Immediately afterward the Riksbank, however, raised the bank rate by 1 per cent to 7 per cent, and three weeks later the rediscount rate was taken off altogether, so that 7 per cent everywhere became the actual rate. To that extent the immediate object of the intervention had been reached, though at the cost of the convertibility of the notes.

Another result was the appointment of a new Committee of Investigation; but it had small, if any, influence upon the course of events. The developments of the following months were decided by another factor which had, up to that time, lacked all influence upon the Swedish monetary system, i.e., the right to issue notes. The curious interplay between conventional and fundamental forces which is usually more characteristic of monetary conditions than of any other phase of economic life, made itself felt with exceptional strength at this moment. Even at the end of the first quarter of 1920, just after the decision of Parliament with regard to convertibility, the unused note issue had fallen almost to 4 per cent, and the corresponding situation recurred at the end of subsequent quarters,

and even at month ends. The reason for this lay only to a minor degree in the increase of notes, it is true (Diagram III) ; it lay chiefly in the fall in the gold reserve that had taken place since the end of November, 1919, and a consequent decrease in the right of note issue by between kr. 55,000,000 and kr. 80,000,000 ; but the fact remained. Under different conditions the directors of the Bank would, in all probability, have found a way out by asking for a renewal of the so-called "second extraordinary note issue" which had been discontinued at that time ; but after the mordant criticism of the leadership of the Bank which had voiced itself during the parliamentary debates of March, it would probably have been useless to make such a proposal ; and when it had not been made before June 22 an extra session of Parliament would have been needed to carry it. The bank directors, consequently, had no alternative but to put up with the right of note issue which they possessed already, and which included the first supplementary issue of kr. 125,000,000.

It is remarkable, however, that the controllers of the Bank allowed the whole summer to go by without any further increases in the bank rate, over and above those made in March and April, in spite of an insufficiency of the unused note issue which became more palpable every day. On the first reported day in September—that is, not at the end of a quarter, or even of a month—this unused note issue had at last fallen below 2 per cent ; and it now became clear that something had to be done. Negotiations had, probably, already been going on with regard to imports of gold—in spite of such imports being in contradiction to the policy of a gold standard when the currency was at a discount. But not before September 25 was an increase in the gold reserve of a little more than kr. 16,000,000 reported. Before that time—or September 17—the Bank had found it necessary to increase the bank rate again by ½ of 1 per cent, to 7½, without reintroducing the rediscount rate, which has never reappeared since. This was the highest bank rate which, so far as is known, had ever been quoted by the Swedish Riksbank, and it appears even to have been made more drastic by a limitation of credits through the help of private banks.

By this delay the last increase in the Swedish bank rate took place almost immediately before a complete change in the situation, as the violent international fall in prices and the great depression now reached Sweden. Two things, first, that the after-war rise in prices

had been allowed to continue as long as it did, and second, that the strong measures taken to prevent the debasement of the currency had occurred just before the end of that period, became of great importance in the subsequent course of Swedish monetary conditions.

The Great Fall in Prices, 1920-1922.

The great rise in the value of money hit Swedish economic life at least as hard as that of any other country. According to a table which has been compiled by the League of Nations, giving the fall in wholesale prices in 21 different countries, the decrease in Sweden was greater than in any other country with a single exception, if the respective highest figures for 1920 are taken as a base. To be precise, there was a fall of no less than 57 per cent between June, 1920, and November, 1922, while the fall in England during the same time was 53 per cent, and that in the United States only 44—during a shorter period, it is true.[3] That such an unprecedented fall in prices would not leave much chance for economic life to function normally goes without saying. As a measure of the difficulties it may be enough to point to the unemployment figures. They culminated at the beginning of 1922 with the unique percentage of 35 per cent for members of Trade Unions. There were 480 applications for every 100 situations listed in the labor exchanges. And the actual number of the unemployed was given as 163,000, a figure probably too low.

Once more it became clear, consequently, that Swedish currency was not saved by its independence of foreign monetary conditions from following the international and largely American course of things, but was, on the contrary, even supernormally influenced by it, just as had been the case during the preceding boom. The theory of business cycles remains too uncertain to allow of a definite judgment as to the possibility of Sweden's being able to set herself altogether free from dependence upon such international developments. That it would have been possible to mitigate to a very great extent, to say the least, the effects upon Sweden, can hardly be doubted,

[3] *Memorandum on Currency, 1913-1923* (Geneva, 1924), Table C. The index which has been principally used in the present work shows an even greater fall in Swedish prices, or 59 per cent in December, 1923.

however; for Finland, with much the same sort of exports, proved herself able almost wholly to escape the great fall in prices.

But the consequences of such a policy would, of course, have had to be accepted. They would have consisted, first of all, in abandoning for good the original and, even at that time, legal, gold parity, as had also been done in Finland. When American prices fell by 44 per cent and Swedish currency was already on the way toward a discount of 20 per cent, the only possible consequence of such a policy would have been an altogether new international valuation of Swedish currency, probably one diminished by at least one-half. It is not the object of the present investigation to say what ought to have been done, but only to explain what really took place; and I shall, therefore, do no more than point out that a Swedish course that severed the connection with the international trend would undoubtedly have made our country wait long for any sort of stabilization of the currency. As late as eight years after the beginning of the great fall in prices no country which has kept its currency at a level at all comparable to its old value has been able to bring itself to a definite devaluation. Had Sweden given up the return to parity she would probably have had to wait for years for stable monetary conditions, instead of having been one of the first countries in Europe to achieve them. It is quite another question, and a much more difficult one, whether the fall in prices in the United States, and the consequent increase in the value of gold, might have been avoided; but that is a question which does not belong to Swedish monetary history.

If the old parity was to be kept, or rather regained, Sweden had her monetary policy after 1920 mapped out for her. All those in responsible positions had more or less pledged themselves to this program, particularly in connection with the great struggle over monetary affairs in 1920; and what was perhaps even more important, the high bank rate immediately before the fall in prices helped to give this fall, from the beginning, a strength which was, in itself, an important factor in the movement toward parity as compared with the dollar. Even by December, 1920, the Swedish price level had fallen 19 per cent below its maximum for the year, and in January, 1921, even 27 per cent below. England could show the same figures for December, but a lower figure—24 per cent—in January. Holland alone showed a speedier fall, her respective figures being

21 and 29 per cent. In the case of Scandinavia the fall in Norway was only 11 per cent and 19 per cent. In Denmark, on the other hand, it was about the same as that of Sweden, 15 and 28 per cent. A movement like that in the case of Sweden was inevitable, if the return to the old parity was to be effected within a reasonable time, when the depreciation had been allowed to go as far as it had in the preceding period; and so far the discount policy of the Riksbank was, at that time, undoubtedly a principal reason for the fact that the fall in prices could not fail to be as violent and destructive as it became.

During the greater part of 1921 the fall in prices continued almost undiminished, only the last months of the year showing a pause, at a point which, with regard to the price level, was at or below half the maximum of 1920. During the following year, 1922, developments in Swedish prices were much calmer, but wholesale prices largely continued to decrease until autumn, when the fall was stopped, as has already been said, at a point from 57 to 59 per cent below the maximum of 1920, and from 55 to 65 per cent above the pre-war level.[4]

Just as was the case in the preceding rise in prices, this fall in prices showed the characteristics of business cycles in a highly exaggerated form. Especially does this refer to the insignificance of the fall in the note circulation as compared with that of the price level (Diagram III): when the difference was at its greatest, in November, 1921, the wholesale price index was 174 (189 according to the Board of Trade index), as compared with a circulation index of 281. Many explanations of this were given at the time, above all that notes had been taken to Germany and hoarded. This was undoubtedly the case with a part of the currency; an investigation by the Swedish Bankers' Association into certain private banks shows,

[4] See Diagram III. From the beginning of 1920 a new wholesale price index for Sweden has existed, compiled by the Swedish Board of Trade. The computation by the League of Nations, given above, rests upon the first-named index. It is invariably a little higher than that of Silverstolpe; and especially for the second half of 1921 the difference is considerable; but, on the whole, there is a tendency to eliminate it. As a rule the index of Silverstolpe has been used in the present work as being the only one covering the whole period since 1914; but comparisons with the American index of the Bureau of Labor for post-war periods (Diagram VI) appear to apply more closely to the index of the Swedish Board of Trade.

when the notes received by the Riksbank are added, a return of Swedish notes from foreign countries, during the years 1922-1924, of kr. 89,000,000, of which kr. 54,000,000 came from Germany. But as late as 1924 kr. 150,000,000 was still unaccounted for, and the fact that the same phenomenon is almost invariably to be found in all countries, the price levels of which had been falling at this time, leaves no doubt that the principal reason was quite another one, namely, an unwillingness to buy, or a decrease in the velocity of the circulation of notes, which has already, in the introductory chapter of this investigation, been shown to be characteristic of periods of falling prices. *The Memorandum on Currency, 1913-1923*, published by the League of Nations, shows the recurrence of this fact in all such countries during the fall in prices. The following figures, which refer to December, 1921—the first figures being for note circulation, the second for price level, and both being in percentages of the figures for the end of 1919—are characteristic: United States, 89-63; Canada, 88-67; Japan, 104-73; Australia, 99-75; Great Britain, 98-57; Holland, 98-56; Denmark, 96-52; Sweden, 84-54. Only those who believe that the Germans hoarded Japanese, Australian, and Canadian notes are able to explain matters on that basis; the difference in the course of developments between that of Germany's neighbor countries and that of the rest of the world probably, on the other hand, makes roughly evident the influence of this particular factor.[5]

The Increase in Foreign Valuation.

The gold value of the Swedish monetary unit had not followed quite the same curve as that of Swedish prices, however; and this was only natural as Swedish prices did not experience a decrease parallel with American prices. The fall began earlier in the United States than in any European country, perhaps with the exception of England, and, what is even more important, went on, during 1920, far more rapidly than in Europe, having by December of that

[5] Up to date the increase of note circulation has been considerably greater than that of prices. But the final total in circulation is principally due to that continuous increase which had, before the War, been found necessary, if the price level was to remain unchanged, that is, at 2.85 per cent annually, on the basis of compound interest (see above, page 132), multiplied by the change in the price level.

year reached 28 per cent, as compared with 19 per cent for England and Sweden. Corresponding to this the gold value of Swedish currency once more fell sharply in the second part of 1920, though not quite to so low a point as in February; November showed a new minimum amounting to an average depreciation, for the month, of 29 per cent. This corresponded quite closely to changes in American and Swedish price levels during these months. But that statement must by no means be construed as meaning that the rate of exchange should have expressed the relative rise in prices from the outbreak of war. It only means that no *new* change had occurred in the two relations; dollar exchange in Stockholm remained (as compared with pre-war conditions) from 18 to 21 per cent lower than what would have corresponded to the relation between the respective rises in prices, as will be shown by Diagram VI.

From the beginning of 1921 the fall in Swedish prices began by being more marked than that in America, especially at the beginning of the year and during the autumn, when wholesale prices in America had already been stabilized, and afterward during the greater part of 1922, when the American price level went up once more, while the Swedish continued to fall. This was an exact expression of the fact that the object of Swedish monetary policy had been realized, as a return to gold parity made necessary a greater fall in Swedish than in American prices; and the consequence was, quite rightly, a marked fall in the premium upon dollars in Stockholm, interrupted only during the summer months, or from June to August, 1921. Already at the turn of the year 1921-1922, the depreciation of Swedish currency was much less. Its maximum, 29 per cent, in November, 1920, had become 9 per cent, taking the monthly average for December; and the second half of the month showed an even closer approximation to parity. This continued for the most part during the whole of 1922, so that complete parity was reached in the beginning of November of that year.

If we are asked for the causes of this, the fundamental fact was that in 1921 the American wholesale price level fell little more than half that of the Swedish, and showed a marked increase during almost the whole of 1922; while the Swedish level continued to fall during the whole of this year, and did not reach that stability, which has since then been largely unchanged, before the last quarter of the year. According to the American index of the Bureau of Labor

and the Swedish index of the Board of Trade, the relative changes in price levels were as follows:

	Jan.-Dec., 1921	*Jan.-Dec., 1922*	*Jan., 1921-Dec., 1922*
United States	—18%	+13%	—8%
Sweden	—31%	—10%	—40%

The relative changes in prices had, however, none the less shown considerable variations from the course of exchange, namely, during the first half of 1921, a tendency to a smaller fall in Swedish prices than would have corresponded to the rise in the foreign valuation of the currency, but after that quite the opposite tendency; and this second continued after that with very few interruptions, after the second half of 1922, eliminating most of even that deviation from foreign valuation, as compared to internal purchasing power relative to pre-war conditions, which had occurred before the great slump in prices (Diagrams V and VI). This development is explained partly, and indeed principally, by the character of foreign trade and freights, but to some extent probably also by "speculation," i.e., expectations of future developments in Swedish exchange. While both former factors, trade and freights, clearly dominated, the relative character of their influence may be said to have been this: the differences between 1921 and 1922 were principally caused by different trade conditions; but the definite change in the situation from this time onward, as compared with the years 1914-1920, was the result, in the first place, of the disappearance of war influences upon freights. This will now be shown somewhat more in detail.

First, with regard to import and export prices, it will be seen from Diagram VIII that sulphite (probably also mechanical pulp) and apparently lumber had, as lately as the first part of 1921, been at a level considerably above the general wholesale price level, as compared with pre-war conditions; but that all export goods contained in this table had, after that, grouped themselves in remarkable proximity to the general level, if not even falling below it. It is, therefore, decidedly probable that this development in prices had contributed to the course of events, first, in the direction of a high foreign valuation of Swedish currency relative to the pre-war situation, and afterward in the opposite direction.[6] On the other hand, it

[6] The same explanation of the situation in the spring of 1921, which is here given, was presented at that time by Professor Silverstolpe in a paper

is remarkable that the new relative increases in the case of both chemical and mechanical pulp, which began during the second half of 1922, did not have the same results; in part this may be explained, however, by iron and steel conditions which have remained unfavorable ever since the beginning of 1922. That developments in the prices of Swedish pulp and paper played a great part in the restoration of our gold parity—just as pulp had been the immediate cause of the unfortunate boom of 1919-1920—can at all events not be doubted.[7]

The spectacular fall in the incoming as compared with outgoing freights that went on almost uninterruptedly from 1918 to the first quarter of 1921 (Diagrams X and XI) is, on the other hand, the principal reason for the disappearance of the greater part of that increase in the Swedish price level, as compared with relative prices, which had characterized the whole period following the outbreak of war. Diagrams V and VI will show the importance of this without many words. What remained of this increase in the foreign valuation of Swedish money—and it was considerable, as the diagrams will show—may broadly be said to represent the remaining increase in the demand for Swedish goods, as compared with pre-war conditions; this increase must even be considered to have been a little greater than follows from this, as incoming freights were now tending to fall below the outgoing average.

There had, lastly, undoubtedly been a certain amount of speculation on the rise of Swedish currency, as is almost always the case under such conditions; and it is only natural that this speculation should gradually have grown less as currency came nearer to parity and new gains, at least in comparison with the dollar, were out of the

read before the Economic Society of Stockholm on April 15, 1921. He may, however, have counted upon the situation being a little more permanent than as a matter of fact it proved to be.

[7] A comparison between general import and export prices is made in Diagram IX, but is, as a matter of fact, very far from being conclusive, on account of the statistical difficulties created by the influence of freights, as mentioned several times before. I, therefore, refrain from discussing them, as such a discussion would take more space than is warranted by the results. The reader interested in this line of investigation should compare Diagrams IX and XI, bearing in mind the statistical influence just mentioned. Broadly speaking, the results already reached will be found to be corroborated if that line is followed.

question. It is certainly impossible to gauge the strength of this factor and that of the increase of foreign assets in Sweden which was its consequence. But considering the quiet course it took, the possibility of explanations of another sort, and the fact that the high foreign valuation of Swedish currency, as compared with the relative insignificance of the fall in prices, was most considerable in the beginning of 1921, before anything can be known of the possibility of attaining the object of Swedish monetary policy, there is every reason for cautious conclusions with regard to the importance of the speculative factor in the course of events. In any case, it is apparent to every serious observer that speculation cannot have had any influence upon the return of Swedish currency to parity, that can even be compared with the importance of this factor in the increase of the value of Danish and Norwegian currencies during 1925 and 1926.

The Period of Business Depression.

Needless to say, the course of events, in spite of the favorable features that, as a matter of fact, were present, was felt to put an extraordinary pressure upon all sections of business life. The Riksbank maintained the unprecedented bank rate of 7½ per cent until April 27, 1921, though that rate had been introduced before the fall in prices at the beginning of September, 1920; and even that was made worse, to some extent, by the rationing of capital which had been introduced in 1918 and never wholly abolished. The discount policy was quite natural in so far as the object was a return to gold parity; but none the less—or even for that reason—it made itself very strongly felt. After the date just cited it is true that the bank rate was lowered again and again. The first reduction amounted to ½ per cent; it was followed by three others during 1921, and two during 1922, all of ½ per cent, so that at the end of the first half year of 1922 the rate had come down to 4½ per cent. But at that time the fall in prices had also about reached its limit, and gold parity had been all but regained.

In business circles, as might have been expected, the blame for these difficulties was, to a great extent, attributed to other than the chief cause, which was the general fall in prices. The difficulties of industry were ascribed especially to foreign competition and, in that respect, to *valuta-dumping* from Germany, i.e., to the abnormally

low foreign valuation of the German currency which acted as an export premium upon German goods. The excess of imports to Sweden during 1920 had, in money, been even greater than that of 1919, which had been considered unprecedented at that time, amounting to more than one billion kronor; and, even after a deduction on the basis of the changed value of the total money in 1920, it was quite as great as that of the year before. But this huge surplus largely belonged to the period of sharp increases in prices at the beginning of 1920; toward the end of the year a considerable decline set in; and this became ever more strongly marked during the course of 1921, so that the excess of imports of that year (kr. 161,000,000), absolutely speaking, was less than that of a normal pre-war year if the change in the value of money be considered. On the other hand, the decrease in exports was, quantitatively, much greater than that in imports. At the prices of 1913 the first was put at not more than 53 per cent and the second at 77.6 per cent of those of 1913; and the fact that this ratio was, to a great extent, balanced by the low prices of imports, quite naturally could not allay the feelings aroused in home producers by imports which were, as a matter of fact, rather small in absolute amount, when such a fall in prices was under way. In the first place there was the influence of imports from Germany, not very great in their total amount, it is true, but in some respects extremely irritating, none the less; it was shown that they were in some cases even greater than before the War. Under the stress of this feeling the Government of the time introduced a bill in the Parliament of 1921 proposing to double about half the import duties; and in the following year a new Government, which was in this case Social Democratic, proposed measures against *valuta-dumping;* but Parliament accepted neither. When the second proposal was made, things had, as a matter of fact, already run their course; both the fall in prices and unemployment were coming to an end; the volume of transactions on the Stock Exchange increased somewhat after the long depression; and there was an excess of exports after June, 1922, resulting in an excess also for the year as a whole.

While the majority of home producers harped upon foreign competition within the country as the principal cause of their ills, some circles, particularly among exporters, had a clearer view of the real reasons for the situation, and turned against the actual offender,

monetary policy itself. The excess in the foreign valuation of Swedish currency, which was often spoken of, gave occasion to proposals of counter measures, such as purchases of gold or foreign assets by the Riksbank; clearly this could not have succeeded unless the situation was the effect of speculation, perhaps not even then. At all events nothing of the sort came about. More radical changes in monetary policy which had been pursued up to that time were favored by some, however; a plan was hatched, and eagerly advocated, to bind the Swedish monetary unit to the British instead of to the American, in general, probably with the idea of going back immediately to the old par value of sterling, which would have meant not only to halt the rise in the value of Swedish money, but more than that, to lower it by from 5 to 8 per cent. The principal spokesman for this policy was a man who has since acquired world fame, "the match king," Mr. Ivar Kreuger.

These plans do not, however, appear ever to have found a sympathetic hearing in politically influential circles; for in Parliament there was a dependable majority against both protectionist measures and attempts definitely to abandon the old parity. But the party which was perhaps the most influential in supporting this position, the Social Democrats, were, on the other hand, hankering after an unemployment policy of a kind that would necessarily have prolonged the consequences of the fall in prices. As has been pointed out in Part I, this unemployment policy did not, however, find a majority, any more than other attempts to change the tendencies of deflation. Though the supporters of the unemployment policy that was adopted constituted a parliamentary majority of a composition quite other than that which upheld the old gold parity on the basis of free international intercourse, the result of these different factors was a greater consistency and harmony among the different parts of economic policy than was achieved in most European countries, though this cannot be put to the credit of any particular party or individual.

The controllers of the Riksbank, on the other hand, were able to block all attempts at a formal reëstablishment of the Gold Standard at this time. Making notes convertible before other countries did so the Riksbank repeatedly declared to be a "highly dangerous undertaking," one fraught with "disastrous consequences." These proposals automatically and repeatedly came before Parliament in

1921-1922, and were reported upon by successive Royal Commissions and similar bodies; but in the end no change was made.

Appreciation and Depreciation, 1922-1923.

When Swedish currency had, in November, 1922, regained its parity with gold, only one month elapsed before even that point was passed and it began to go higher. It is easy to understand that the business world should regard such a development with troubled eyes, as there was a possibility that the Government might reintroduce the embargo upon gold, though this time not to prevent a rise in prices but, on the contrary, to maintain a disastrous fall in prices; and the Swedish Bankers' Association communicated with the Riksbank and asked for measures against this. The Riksbank took vigorous action by buying up foreign bills, so that their foreign assets rose from kr. 150,000,000 at the end of October to kr. 248,000,000 at the turn of the year. The bank rate was not lowered; but they none the less gained their point to this degree, that the trend was not only halted, but was, from the end of January, 1923, even turned in the opposite direction. The Riksbank had now to make use of its foreign assets in order to keep Swedish currency at par, and had by the end of November, 1923, paid out fully half of what such foreign assets amounted to. The private banks, at the same time, were reducing what similar assets they had. Swedish currency, none the less, was somewhat at a discount even at the beginning of February, as compared with the dollar, and remained at a discount of from ½ to 1 per cent, and from the middle of October at from 1½ to 2 per cent when the real figures are given.

The best explanation of this is, to all appearances, the relative changes in American and Swedish price levels. As has already been said, the American wholesale price level—taking the figures of the Bureau of Labor—had risen by no less than 13 per cent between January and December, 1922, and the Swedish level had, during the same time, fallen by about 10 per cent. During 1923 the Swedish level had, on the other hand, remained almost unaltered, the American showing a slight decrease. To this must be added the influence of the new American tariff, which, in so far as it had any influence at all, must have increased the foreign valuation of the dollar as compared with its internal purchasing power. According to the quotations of the Riksbank and the price indexes used, the downward

deviation of dollar exchange from the relative increases in prices had remained constant at about 5 per cent from November, 1922, to December, 1923 (Diagram VI); and the explanation would so far be complete on the basis of the changes in price levels. But the dollar quotations of the Riksbank were too low, as to which more presently; and on the basis of New York exchange quotations the downward deviation of dollar exchange was a little less. Furthermore, the real market situation may even have given Swedish currency too high a value, because it had been caused by a constant selling off of foreign assets in Stockholm. It was no doubt a legitimate source of satisfaction that the Swedish price level had been stabilized; but for a country which was preparing itself for a return to the Gold Standard, it was a drawback that this stabilization had taken place at a point which, to all appearances, was a little too high to admit of an altogether unchanged parity with gold and dollars.

This meant that something had to be done to create the right relation between the value of money in Sweden and in the United States. The officials of the Riksbank tried to go on, with the help of operations on the exchanges, throughout 1923; and, up to November, kept the Swedish bank rate at 4½ per cent, the lowest level since the outbreak of war.

At the session of 1923 the question of making notes convertible took on more political importance than ever before, in part, too, precisely because of a fear that the parity with gold might be lost again. Parliament, consequently, stated as a qualification of its decision to postpone convertibility that the directors of the Bank should not diverge from gold parity except for reasons "which, if the Gold Standard had been re-introduced, would have made it necessary to abandon it." This, combined with the decrease in the gold reserve, made the controllers of the Bank raise the bank rate by no less than 1 per cent to 5½.

Still the course of events left a great deal to be desired. Toward the end of 1923 and at the beginning of 1924 the dollar showed a general tendency to rise, as compared with European currencies, a tendency that had been expected for some time. It may have been connected with "flight of capital" from Europe, i.e., transfers of capital to the United States; but at least in the case of Sweden the downward deviation of dollar exchange from relative price levels tended rather to increase, instead of to decrease, at the beginning

of 1924, so that price changes may explain such a tendency. In spite of the rise in the Swedish bank rate the difficulty of keeping to gold parity, consequently, remained. At the end of 1923 the Riksbank strengthened its reserves in foreign assets by some kr. 20,000,000; but in January the outflow began once more. In order not to be compelled to raise the nominal rate of dollar exchange above kr. 3.795, corresponding to a discount on Swedish currency of 1.6 per cent, and, at the same time, to escape the great demands upon its reserves in foreign assets, which would have resulted from making this quotation official, the Riksbank hit upon the device of making use of double quotations for the dollar. To a certain extent this was a development of the custom which the Bank had been following from the beginning of the War, of giving out nominal quotations which deviated more or less from the real figures. But as late as 1921 the directors of the Bank had protested that their quotations were decided exclusively by true current values; and this position now became impossible to maintain.

An important new step had, consequently, been taken in a direction away from any correct marketing of foreign assets. Bills, to a limited extent, were sold, but only to favored importers at the nominal quotation, the rest of the demand being supplied at the market rate, which rose as high as 3.87. The New York quotation showed a depreciation in Swedish currency of 2.35 per cent. It is probable that it was precisely this policy that increased the premium on the dollar, as dollars were purchased out of fear for the future of Swedish exchange. The officials of the Bank probably thought of themselves as having fulfilled the requirements of Parliament with regard to keeping to dollar parity; but the real situation was that this parity had been, to some extent, given up and had been replaced by something as strange as a premium on imports of all goods or on such demands as were considered legitimate by the Bank and, consequently, at the same time, by a rationing of the demand for foreign exchange. The only motive given by the Riksbank for such a policy was that they had had to retain sufficient reserves of foreign assets; but this clearly constituted no explanation at all of the fact that the Bank had needlessly allowed the currency to be at a discount, although the continuation of inconvertibility had been granted on condition this should not take place.

The Reëstablishment of the Gold Standard, 1924.

For the first time since 1914 the Government now declined to follow the directors of the Bank. This is easy to explain in so far as the Minister of Finance, Mr. K. J. Beskow, had the year before been able to assent to a continuation of inconvertibility solely because of his firm belief that parity would remain unaltered even without the help of cash payments, and this belief had been made a mockery. The Minister of Finance now openly declared that he did not find the arguments of the directors of the Bank convincing, and said further, that even before then, March 7, he had had it under serious consideration to propose an immediate return to the Gold Standard. For certain reasons he had, however, found that a new and brief period of preparation was necessary, especially because of the fact that the Riksbank would have to amend exchange conditions as they then were. But, in his opinion, the period of delay must not last longer than July 1; and contributing to that decision was the fact that under the agreement with Denmark and Norway in 1917 the prohibition of the export of Scandinavian gold coin was subject to three months' notice. The intervening time must be used for the submission of the arguments of the Bank's directors to further scrutiny; and it was intended that Parliament should have a second chance to decide as to the resumption of cash payments after July 1.

This emancipation of Government from the leading strings of the directors of the Bank—which presently, and for the first time, brought down the market premium on the dollar to the official rate—made a great stir in circles connected with the Bank. In the Standing Committee on Banking of Parliament, to which the bill was sent in due course, opinions were apparently very much divided between assent to the proposal of the Government and assent to that of the directors, and the result of the Committee's deliberations was a surprise to almost everyone. For, on March 22, it proposed unanimously that cash payments be resumed, and the prohibition of gold exports be revoked, but not, according to the proposal of Government, on July 1, but *immediately*, or, on April 1; that is, when dealing with the principal question the Committee went further even than the Minister of Finance himself. The reason given for this in the subsequent debate in Parliament was, chiefly, that the bill ap-

peared to make a resumption on July 1 almost necessary, and that an immediate step would be more profitable, in order to prevent another debate and, thereby, also another cause of disturbance. In compensation for this great concession to the adversaries of the bank directors, a limitation was put on the Gold Standard, in so far as a prohibition of gold imports for everyone except the Bank was also to be in force from April 1 till it should be revoked by the King, after consultation with the bank directors. The most surprising part of this change of front was that the bank directors gave their explicit adherence to the whole new proposal; for the dangers of an outflow of gold, in their opinion, could not be compared with those of an influx. They stressed the fact, it is true, that they had found their original proposal safer; but they gave no information as to what had allayed their fears, which had been expressed year after year, and on the last occasion less than a month before, based upon Stockholm's being "the only free gold market in Europe"; nor was any explanation forthcoming of the reason for an import prohibition of gold being substituted for the earlier form of an embargo.

In any case, the long-debated question was now finally set at rest. On March 29 both Chambers agreed to the proposal of the Standing Committee on Banking, the Upper House unanimously, the Lower by 124 votes against 60, the latter being for the original Government Bill.

Sweden as the Sole European Maintainer of the Gold Standard, 1924-1925.

It goes without saying that the Gold Standard itself, especially in the beginning, presented some difficulties to those who were chiefly responsible for the Swedish standard of money. But they were, only to a very small extent, caused by convertibility and, to a somewhat greater extent, by the retention of parity; and opinions differed with regard to the right method of meeting them.

In the beginning the bank directors did not change much in their handling of the situation, with the very important exception that the double rates of exchange disappeared, and the demands for foreign bills were met more fully at the official rate; in consequence of this, at the beginning of June the total of foreign assets in the Bank had dropped to kr. 66,500,000, hardly half the figure at the beginning of the year. During the whole month of April dollar exchange

was kept almost unchanged; toward the end of the month the premium was even raised to 2 per cent with the exchange at 3.80. Clearly this was a source of surprise, because there could be no doubt that this rate was considerably beyond export specie point and would, consequently, have led to an export of gold, in spite of the fact that the prohibition of the export of gold coin did not disappear until July 1, and gold coin would have had to be melted down to be exported. There was no export of gold worth mentioning, however, during the first weeks that followed, probably because the world had had time to forget how a gold currency worked. But after the third week of April the corrective designed for the Gold Standard made itself felt, and on May 10 the gold reserve of the Riksbank had been diminished, since April 1, by kr. 23,600,000. Adding the reduction of foreign assets which was kr. 11,300,000 since the date mentioned, the total was nearly kr. 35,000,000. The Riksbank had now speedily to lower the premium on the dollar and it reduced the rate on the same day, May 10, to 3.765, which appears to have been regarded as export specie point. At this point it remained unchanged for six weeks, foreign assets diminishing during the same time by kr. 21,200,000. Moreover, it was not wholly possible to hold down the market rate of the dollar to the same premium as that of the official rate.

There were several even among the most eager advocates of a return to the Gold Standard who, at this time, strongly condemned the step which had been taken. More frequent, however, was the opinion that the bank rate would have to be increased in order to raise the value of Swedish money to a point which allowed it to retain parity with the dollar, instead of glossing things over by operations on the exchange. Such a point of view was quite natural, as will be seen from what has been said already. In so far as it is possible to come to more precise conclusions on the basis of materials which are as difficult to compare as price indexes, the American level of wholesale prices, according to the Bureau of Labor, even showed a somewhat stronger tendency to a decline than the Swedish (according to the Swedish Board of Trade) during the spring and summer of 1924; while both theorists and laymen had, in general, been expecting developments of quite a different sort. A temporary phenomenon was probably of more importance than this, however; for an unusually hard winter had delayed Swedish shipments and,

consequently, decreased the supply of foreign bills. At all events, the controllers of the Bank did not follow advice and increase the bank rate. Their policy, as became clear at last, proved to be the right one, in so far as the result was a somewhat greater price stability in Sweden than in the United States. Instead the Bank assumed credits in New York during April and May to a total of $35,000,000, or kr. 130,000,000, in all, and, by this, greatly strengthened the reserve of foreign assets. The difficulties were over for the time; $10,000,000 of the $35,000,000 which had been taken up in the spring was paid back by September and October, and the rest was believed largely to have been left unused. In October a State loan for another $30,000,000 was taken up in America; it was not meant to support the exchange but might, at first, be used for that purpose. The American wholesale price level had now been turning decidedly upward, during the late summer and autumn; it was followed by the Swedish. And a gradual fall in the value of the dollar, in comparison with most European currencies, succeeded the earlier rise.

The difficulties which have here been discussed were not properly the outgrowth of the Gold Standard as such, but of the retention of gold parity. But later on, for the first and—up to the present date—only time, another factor became of importance which might be said to give some small support to the insistent expressions of opinion by the Riksbank that the Gold Standard, i.e., convertibility, could create difficulties which did not come from parity itself. What occurred was a new demand for gold, principally from Germany and growing out of the Dawes plan; for this demand, in part, turned to Sweden as the country nearest at hand. The Bank met this with something so unnecessary as an import of gold, and, as was believed, an import of kr. 9,000,000. But it saw its gold reserve falling at the same time almost continuously, or, from the latter part of August to the end of the year by kr. 14,900,000, that is, if the assumed imports of gold be added, by almost exactly the same amount as in the earlier half of the year. At the same time the Riksbank again reduced the value of the dollar in Swedish currency or, finally, to 3.71, which was a discount for American exchange of almost $\frac{2}{3}$ per cent. And there it remained from the first half of December, 1924, to the end of April, 1925.

By the beginning of May the position of Sweden as the only gold-

standard country in Europe came to an end; for Great Britain, Holland, and Switzerland, and also several countries beyond the sea, now went back to the Gold Standard. After that, no specific difficulties in retaining the Swedish Gold Standard can even be imagined. Such difficulties as had occurred before that time will appear to have been of very moderate proportions as they did not even call for an increase in the bank rate. It is a curious irony of fate that the resumption of cash payments by England, which had been considered by the great majority of Swedish opponents of resumption to be the only support necessary for the stability of a Swedish gold currency, led to immediate difficulties for that country of vastly greater importance than those which Sweden had had to meet during her year of isolated adherence to the Gold Standard; the principal reason for this was that England was, as a matter of fact, far less prepared for dollar parity than was Sweden.

The Dissolution of the Token Money Union, 1923-1924.

When the last step had been taken in the return to an effective Gold Standard in Sweden, the last remnants of the Scandinavian Monetary Union that might be considered to have retained any practical importance were likewise liquidated.

The connection between the gold coinage of the three countries had been wholly ended long before, as has been shown in an earlier page. And, in consequence, the rates of exchange fluctuated freely. Danish and Norwegian exchange had been continuously at a discount since 1916, but it had, up to the end of 1919, usually remained within 10 per cent. At the time of the great fall in the international value of Swedish currency, the discount on Norwegian currency, as compared with Swedish, was far less; it even approached quite closely to parity. But from then on the spread increased rapidly, especially in the case of Norwegian exchange. And, in the second half of 1923, the latter was at a discount of from 35 to 44 per cent, as compared with Swedish, Danish being at a discount of from 32 to 34 per cent.

The curious, not to say incredible, part of the situation was that one single clause of the Monetary Union still stood, the clause which referred to token money. This, consequently, had remained legal tender to its nominal value in all three countries. Though a Norwegian note or bill for kr. 10 was equivalent to no more than from 5.60 to 6.30 Swedish kronor, 10 Norwegian kroner were, in token

money, equivalent to 10 Swedish. The difference in the case of Danish money was less, but even that difference was enormous. One Norwegian krone was, in Sweden, worth from 1.60 to 1.80 Norwegian kroner; and one Danish krone was, in Sweden, worth 1.50 Danish kroner. The situation, in other words, was absurd, and there could be no doubt as to the result. In spite of prohibitions of the export of token money, supported by penalties ever more Draconian, a continuous stream of Danish and Norwegian token money flowed to Sweden; after having been in circulation there for some time it flowed into the Riksbank; and it was at last sent back to Denmark and Norway, where it had to be honored according to its nominal amount in Swedish kronor. As always, when measures which appear natural to everyone are made criminal, the inventive power of the smuggler grew in equal measure with the severity of the legal measures of the two States. The smuggling assumed forms that were entirely businesslike; certain individuals in Denmark and Norway, especially street-car conductors, collected token money and had it transferred to central stations on the Swedish side, stipulated commissions being paid. And even law-abiding Danish and Norwegian citizens, who did not stoop to smuggling, forebore to pay for their purchases in their own country in a currency which had a value 50 or 80 per cent higher at some place only a few hours away. Such token money of a face value of kr. 1 or kr. 0.50 as was not smuggled out was, therefore, hoarded and disappeared from circulation quite as thoroughly as if it had been smuggled away, so that Denmark and Norway had to fall back upon notes for small amounts as a substitute for metallic currency. The whole story was as pretty a demonstration as anyone could wish of the so-called Gresham's Law —which says that when two sorts of money are legal tender for the same amount the inferior money will drive out the superior.

From a Swedish point of view the entire phenomenon was of no great importance, though it put an abundance of token money into circulation, and may, thereby, have meant possibly a certain increase in prices. The Riksbank, furthermore, out of courtesy to our neighbor countries forebore, at the beginning, to send back their money, which piled up an abnormally large stock of token money in the Bank itself. When this situation was changed, the total figures for such smuggling came to be known. And, it appears from the yearbook of the Bank, the sums sent back by Sweden in the course

of the years 1923 and 1924 amounted in Norwegian money to kr. 19,300,000, and in Danish to almost exactly the same sum, or kr. 19,500,000, that is, to a total of kr. 38,700,000. By comparing this with the total amount minted (smelting deducted) during the fifty years of the Monetary Union, it will be found that exactly 40 per cent of what had been minted in Denmark since 1873 had gone to Sweden during the few years of the depreciation of the currency, and had had to be bought back for its nominal value in gold. The corresponding figures for Norway appear to be lacking.

Even in that rich record of human folly which is called the monetary history of the world, this episode must be said to take a high place, token money being allowed to remain at par for eight years after the date when the principal currency had lost its parity. Curiously enough, there was a marked antipathy in Norway and Denmark to those changes which the situation clearly called for. In the first place, this appears to have been caused by an unwillingness to give up the idea of a speedy return to parity with Sweden, but another thing that contributed may have been the fact that the Riksbank allowed the money to remain in Stockholm and did not ask for immediate repayment. Internal conditions may also have assisted. At last the situation became impossible, however; and after conferences in Christiania in October and in Stockholm in December, 1923, and consecutive ratifications by the three Parliaments in the beginning of 1924, even this last remnant of a Monetary Union was abandoned. The old convention money lost its character as legal tender in all three countries six months after the ratification of the stipulations, that is, on October 6, 1924. One thing only was made an exception: such money was to be received, and will continue to be received, at the Riksbank. Another not less important point was that Denmark and Norway introduced token money of quite a new type, which had never been legal tender in Sweden and, therefore, could not be made to circulate there.

When the Gold Standard was introduced in Sweden on April 1, 1924, notice was also given, as arranged in the agreement with our neighboring countries, for the freeing for export of Scandinavian gold coin; that is, Swedish gold currency could be freely exported after July 1: all that now remains of the Monetary Union is little more than a single stipulation, namely, that all Scandinavian gold coin should be legal tender in all three countries. Even this is limited

by Sweden's prohibition of gold imports, which does not except Scandinavian gold coin; but this lacks all actual importance, in so far as gold circulation is non-existent. On the other hand, the Monetary Union has never been formally revoked; and it is by no means out of the question, though it is, on the other hand, no foregone conclusion, that this link in economic Scandinavianism, which had been so highly valued before the War, will come to new life with greater or smaller changes, since both Denmark and Norway have returned to the Gold Standard. But this question still belongs to a future which we must not here attempt to prophesy.

CONCLUSION

We have now come to the point where Sweden, for all practical purposes, returned to the Gold Standard, though without that close connection with her neighbor countries which had resulted from the Monetary Union of earlier days. True the prohibition of gold imports remained and still remains; but except for brief periods its influence has so far been negligible. No menace to the continuation of the Gold Standard is as yet in sight, and it may assuredly be said to be non-existent so long as humanity in general, and Sweden in particular, is able to live in at least comparative peace. One great weakness in the legal foundation of the Swedish Gold Standard has been left, however; there is nothing which can prevent international movements of gold from being blocked at any time by a simple decision of the Government, and blocked, too, even without consulting the directors of the Riksbank or the Public Debt Office. While convertibility of notes into gold is part of the Constitution, and convertibility of gold into notes is regulated by statute, both alike can be made quite illusory by laying a prohibition on the import or the export of gold. Experience gained during the years 1919-1920, in particular, admits of no doubt as to this.

Naturally, no steps have been taken by Sweden to lay the foundation of a monetary system which might possibly take the place of the Gold Standard, in spite of the fact that the conception that that standard is only a station on the road to a monetary system directly working for a stable value of money has been gaining ground in many parts of the world. Swedish economists and bankers might be held to have a particular task to fulfil in working out such a system, first, on account of their character as the creators of the embargo

upon gold, second, and perhaps to an even greater degree, because such a plan, even before the end of last century, was proposed by one of the most weighty of Swedish economists, Knut Wicksell, in his book *Geldzins und Güterpreise* (1898). At that time the plan was simply regarded as Utopian, and its practicability can by no means be considered as established even now. But it is undeniable that its political and psychological possibilities have been strengthened by the War; and before his death, which occurred early in 1926, its original creator was able to apply its workings more fully to the present situation.

If we cast a last glance back over the checkered career of the Swedish monetary system since 1914, it will appear that the outcome has, after all, proved happier than in most countries, happier even than in certain neutral countries. Some of the factors which have contributed to this must simply be considered as happy coincidences, above all, perhaps the high foreign valuation of our export goods during the great fall in prices. But the representatives of economic science may, perhaps, be allowed the credit of having made some contributions to the result, as their criticism began earlier and was more continuous than in most countries, the result being that it was at last able to influence both the opinions of politicians and those of the general public. However this may be, it is an instructive, though by no means a comforting observation, that even such great monetary mistakes as those which have been made in Sweden—over and above those which might be considered natural or difficult to avoid—have not made it impossible to reach results which compare favorably with those which can be shown by most countries.

The above narrative consequently illustrates the lack of wisdom which has ruled the world of money since 1914: *Quantilla prudentia mundus monetarius regitur.*

BIBLIOGRAPHICAL NOTE

As the sources of Swedish monetary history are mainly in Swedish little would be gained by enumerating them here. Instead, we may make general reference to the unabridged Swedish edition of the present work, as published by the Carnegie Endowment under the title *Bidrag till Sveriges ekonomiska och sociala historia under och efter världskriget* (Stockholm, 1926). Over and above what is published in the present volume it contains, among other things, all the materials for

the treatment of the subject, and also statistical tables upon which the diagrams and the text of this monograph have been based.

As to general theory, it will be clear from the previous account that I consider the treatment of the classical economists, Ricardo and Mill in the first place, as essentially correct with regard to the problems here studied. My treatment is in even greater accordance with that of my former pupil and present colleague and friend, Professor Bertil Ohlin of Copenhagen University, as expressed in his doctor's thesis, *Handelns teori* (Theory of Trade), published in 1924. A very much enlarged and entirely rewritten edition of this volume will appear in the "Harvard Economic Series." Professor Ohlin has also been of great help to me by giving much valuable criticism at different stages of the present inquiry. On the other hand, I have already given in the text my reasons for differing from Professor Gustav Cassel in his well-known writings upon this subject, especially his first book, *Dyrtid och sedelöverflöd* (Stockholm, 1917), but also his second, *Money and Foreign Exchanges since 1914* (London, 1923; Swedish edition in 1922). Both theoretically and statistically his explanations appear to me to be essentially erroneous, for reasons given. Possibly Professor Cassel has considered it to be his first duty to substitute for ideas that are virtually dangerous, notions which are far from satisfactory from a scientific point of view, but simple enough to be easily understood and less likely to cause actual mischief; and his practical influence has been as great as it is well known. The volume by Dr. James W. Angell, *The Theory of International Prices*, "Harvard Economic Series," vol. XXVIII, was published at about the same time as the Swedish text of the present series. I have not found it necessary to insert references to it in those places where we find ourselves dealing with the same problems.

Miss Karin Kock, D.Phil., has prepared the diagrams here published as well as the tables upon which they have been based, besides being of great help in many different ways.

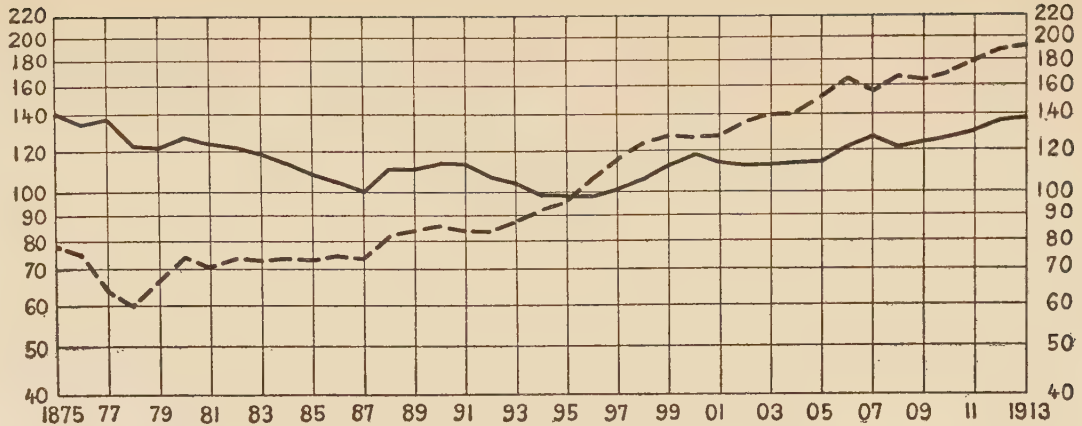


Diagram I

Price level and note circulation, 1875-1913.
Index numbers. (Logarithmic scale.)

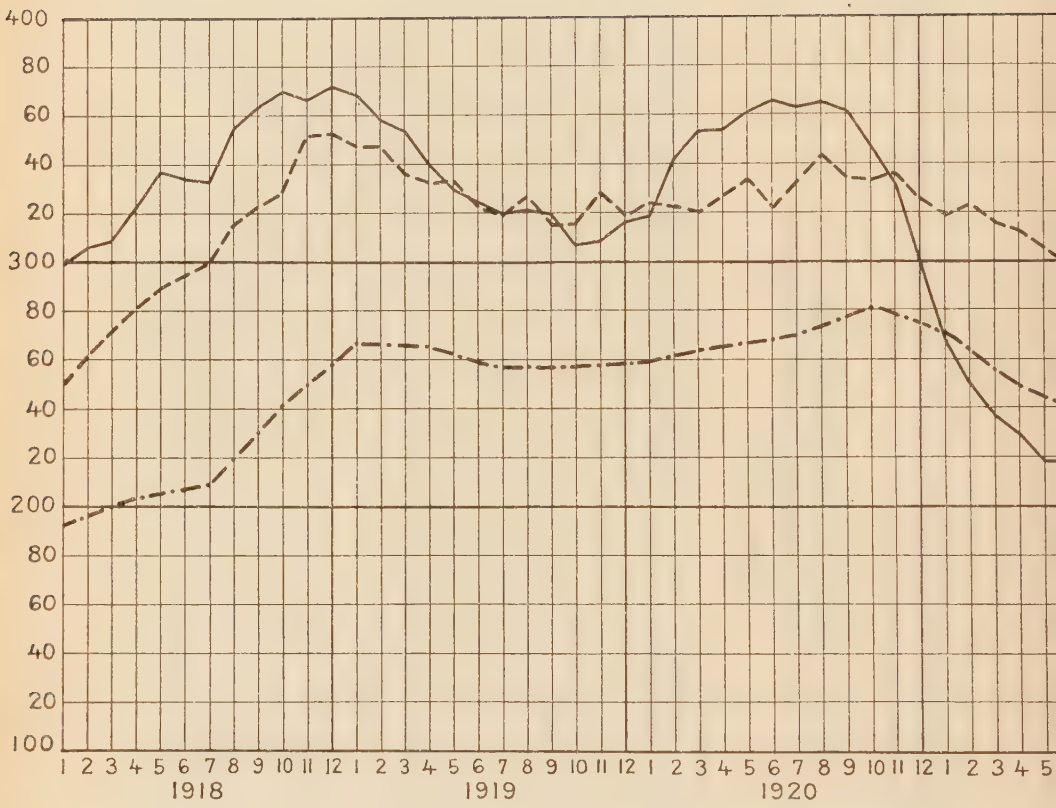
General level of prices as given by Amark

Total note circulation (31st Dec.)

Basis of index numbers:

Price level, 1893-1897 = 100.

In note circulation, kr. 121,500,000 = 100.



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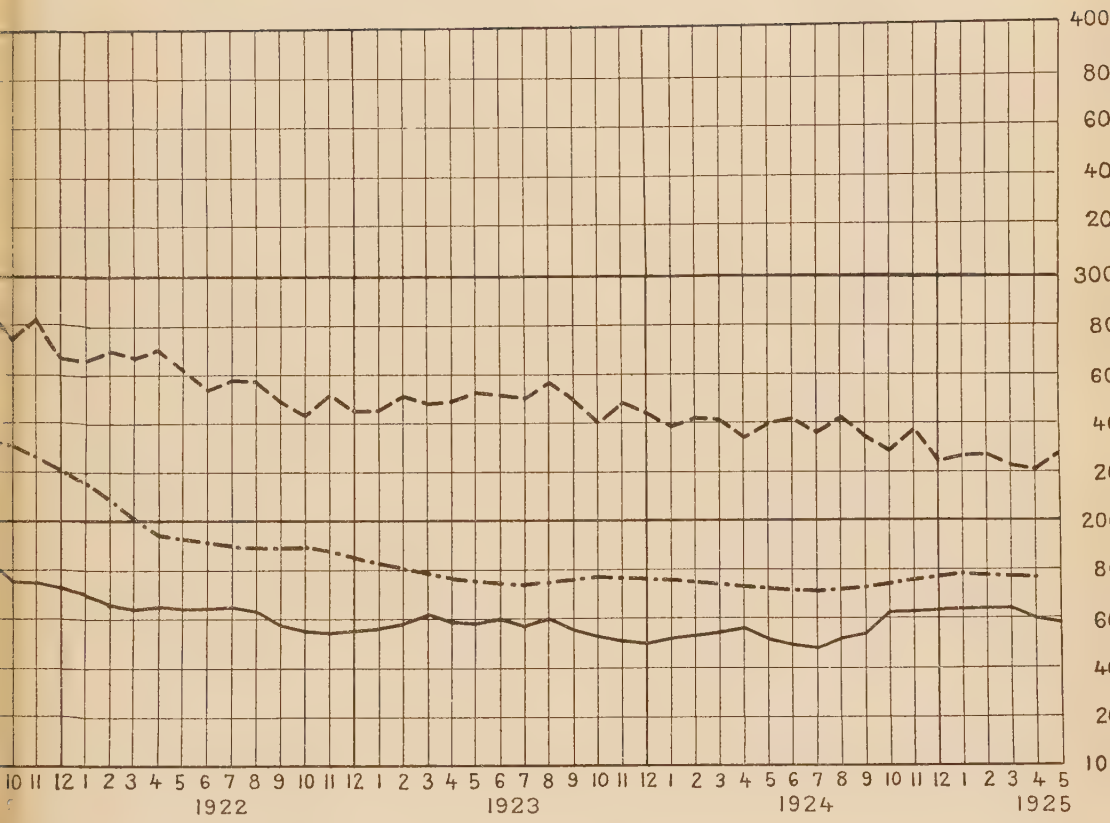
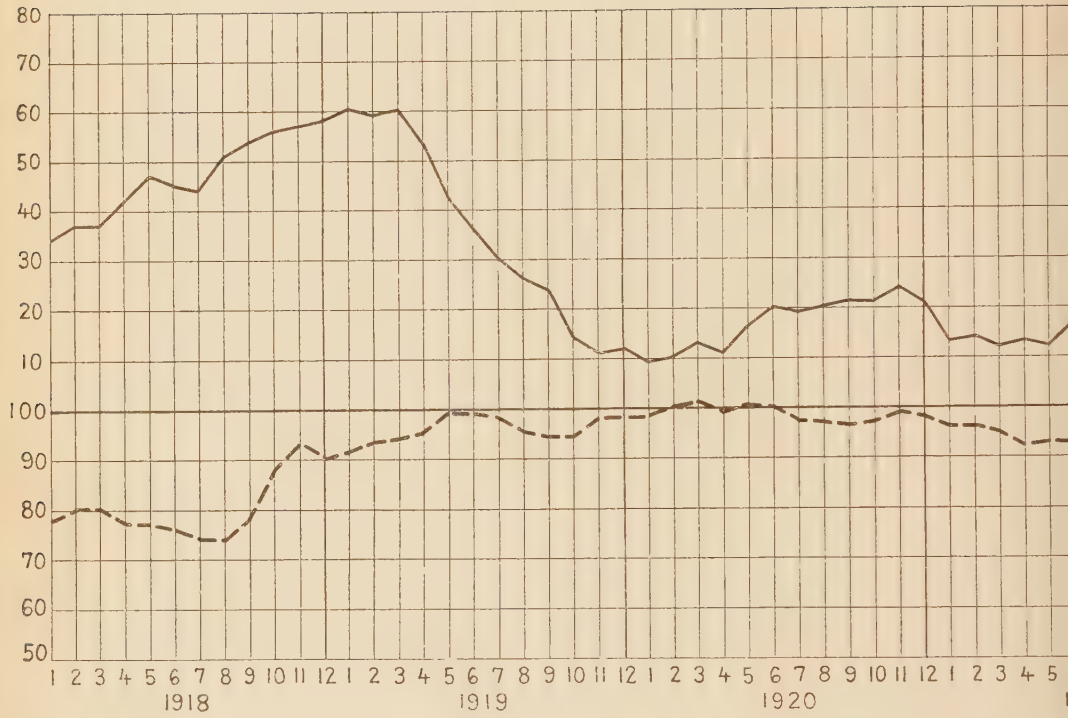


m III

living, and index of note circulation,
—May, 1925.

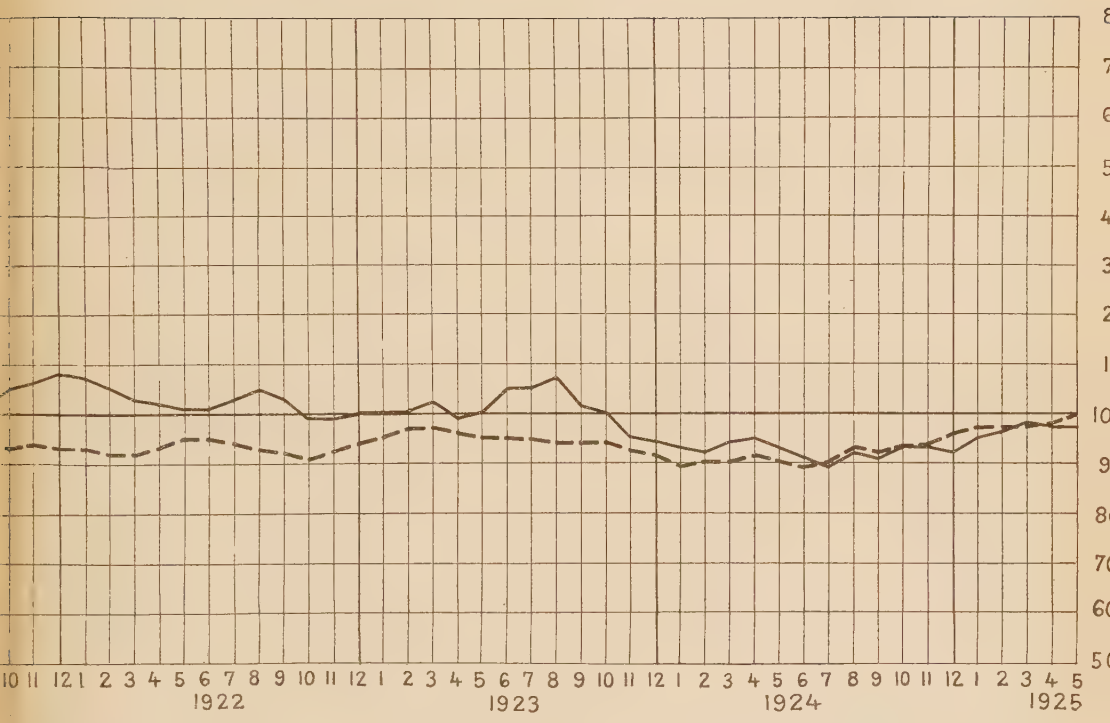
ice index (Silverstolpe)
circulation (*cf.* Diagr. II)
of living



Index numbers for Sterling E
prices for Sweden, as against

Sterling Exchange in percenta

Relative rise of Swedish price
Prof. Silverstolpe)



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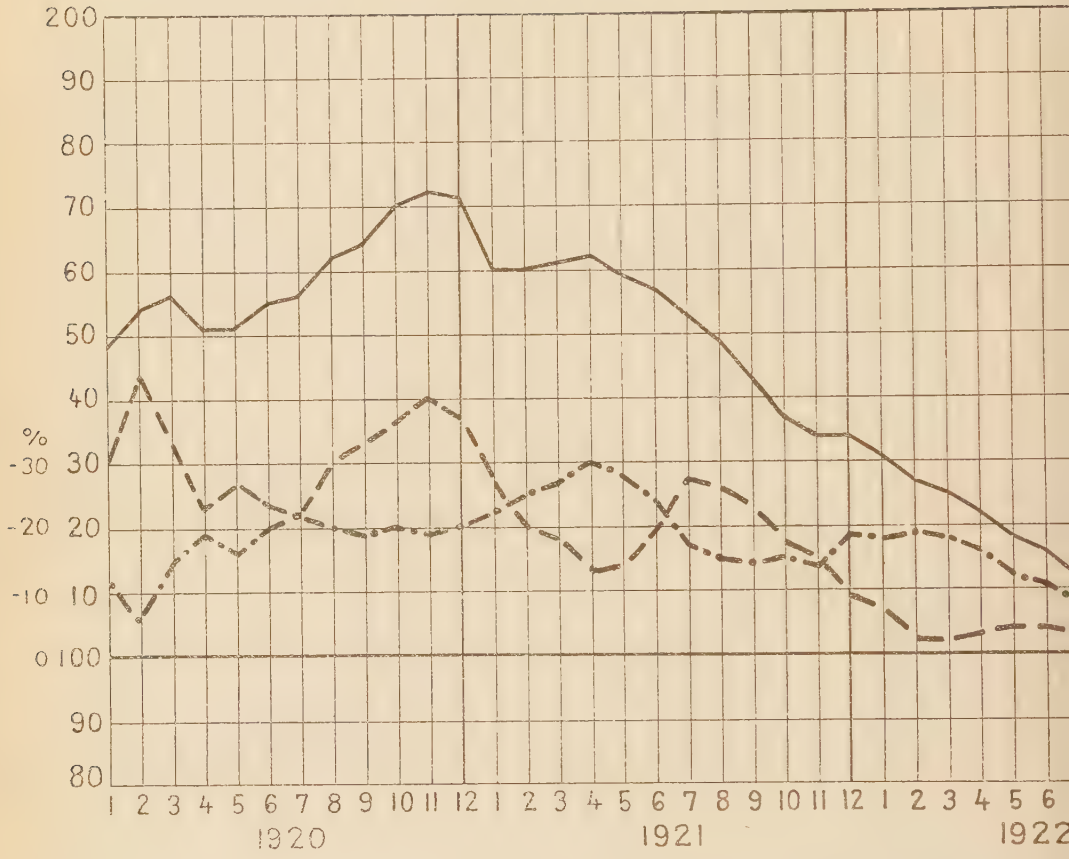
ge in Stockholm, and relative rise in
ritain, January, 1918—May, 1925.

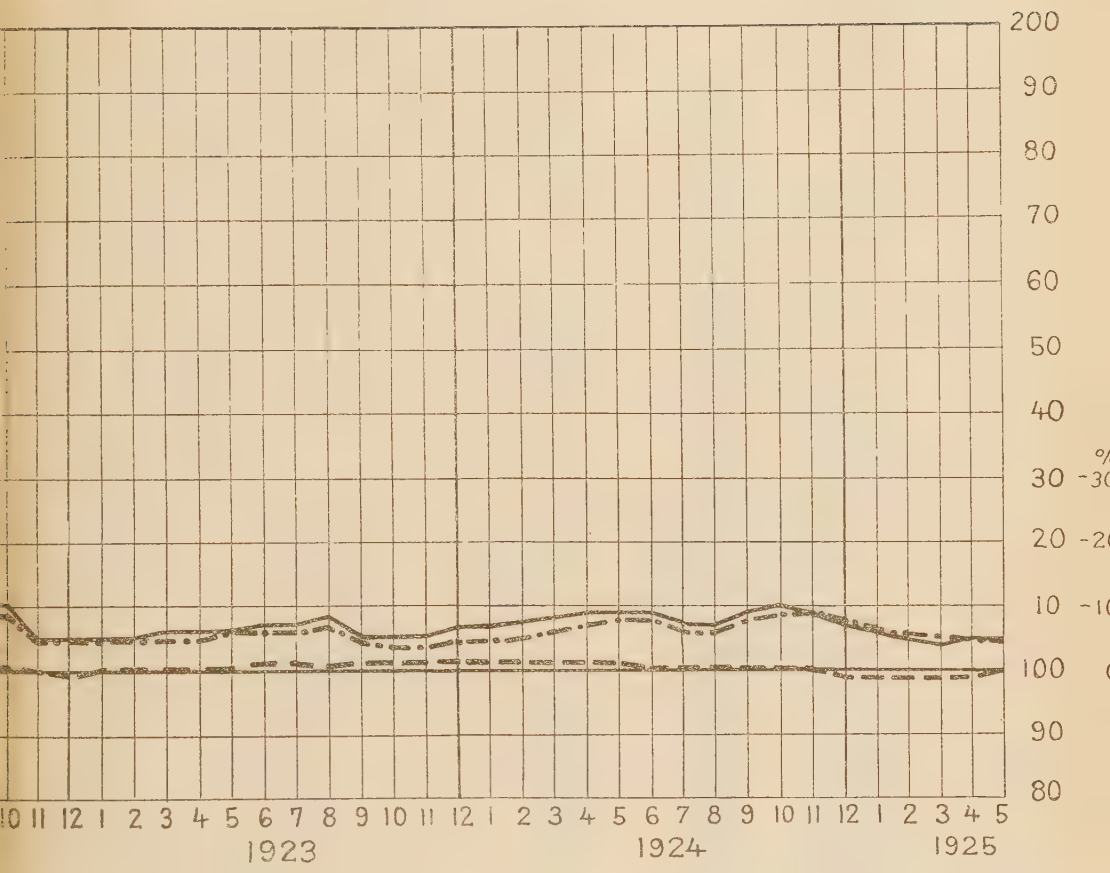
rage July, 1913—June, 1914

lex of Mr. Sauerbeck = 100, as compared with that of



Index numbers for Dollar Exc
relative rise in pric

Relative rise of Swedish price level (Bureau
Dollar exchange, in per cent of average of 19
Deviation of dollar exchange from relative ris



n VI

n Stockholm and its deviation from
ary, 1920—May, 1925.

Index = 100, as compared with that of Swedish Board of Trade)

s, in percentage of same

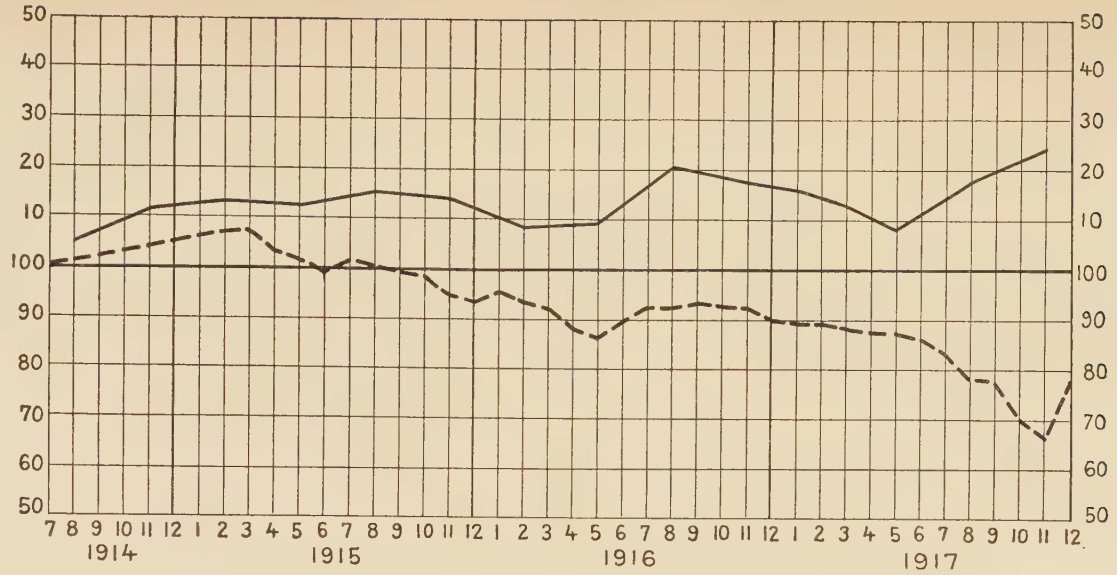


Diagram IV

Index numbers for Sterling Exchange in Stockholm, and relative rise in prices for Sweden, as against Great Britain, 3d quarter, 1914, to 4th quarter, 1917.

– – – – – Sterling Exchange in percentage of average July, 1913—June, 1914

——— Relative rise of Swedish price level (Index of Mr. Sauerbeck = 100, as compared with that of Prof. Silverstolpe)

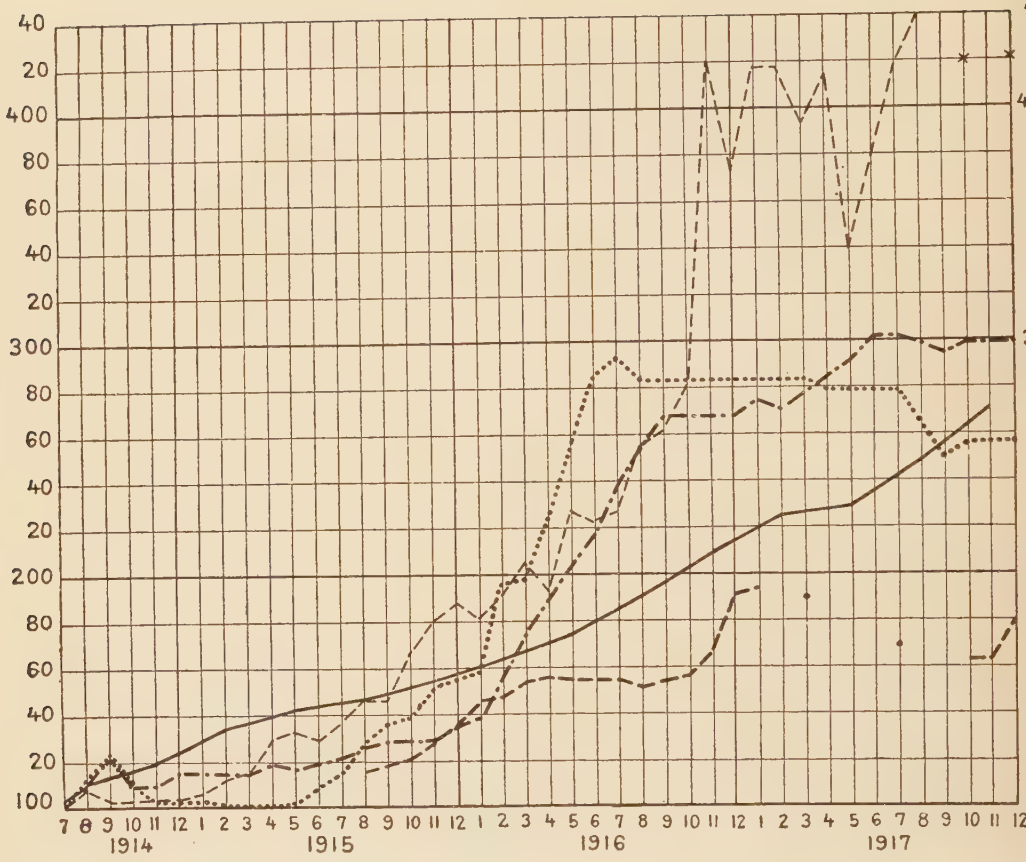


Diagram VII

Price index for certain export commodities, and general index, July, 1914—December, 1917.

General price index (Silverstolpe)
Pig iron for export
Lumber
Mechanical pulp
Strong sulphite

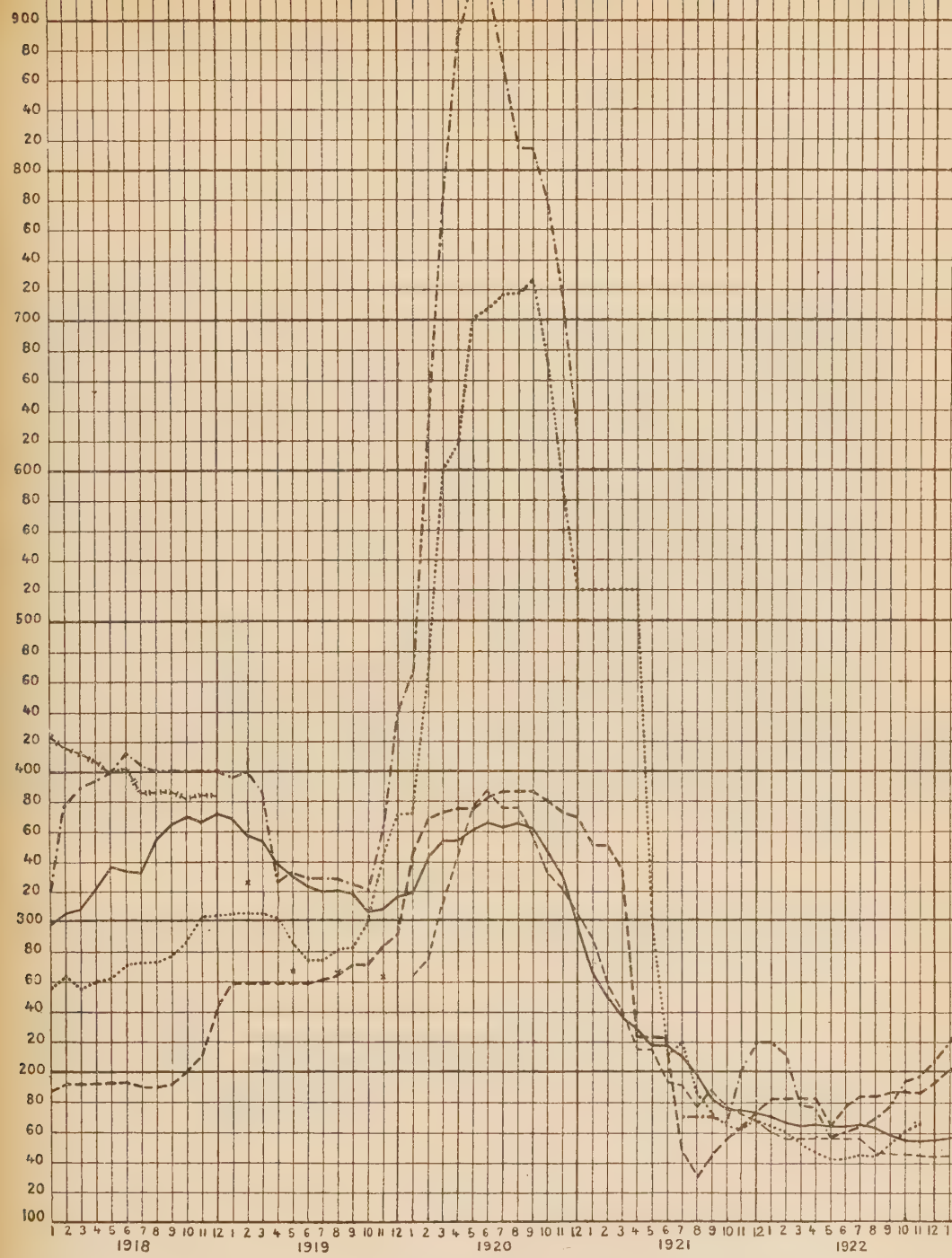


Diagram VIII

Price index for some export commodities, and gener
January, 1918—May, 1925.

General price index (Silverstolpe)
Pig iron for export
Price index of Silverstolpe: Metals Group (1918)
Pig iron for export; average price of all qualities (1919)
Lumber
Mechanical pulp

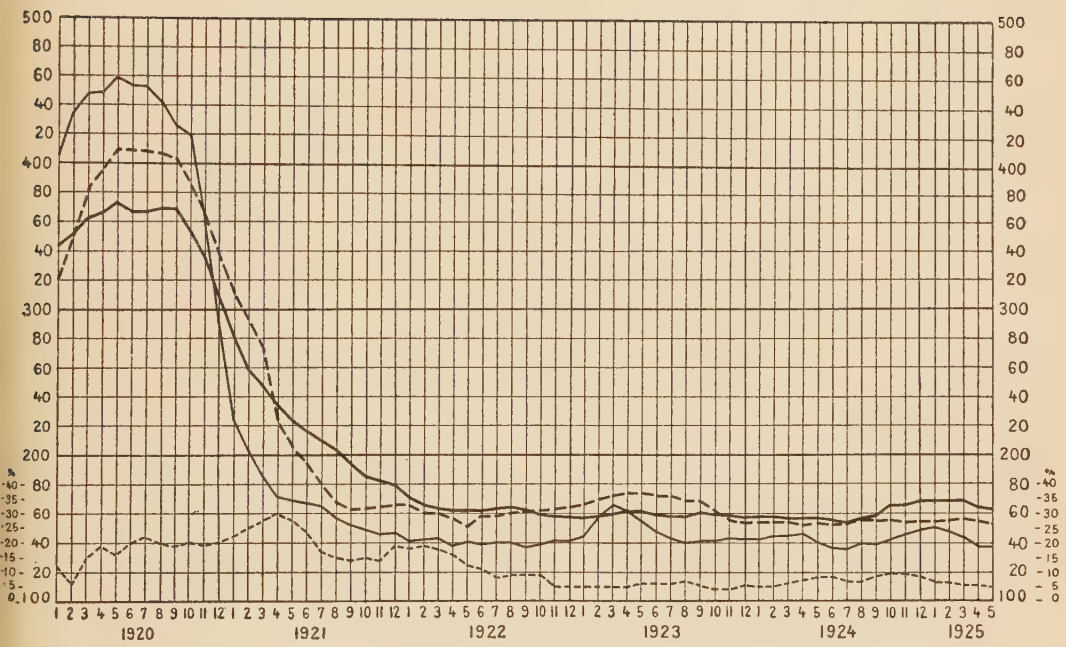


Diagram IX

Index of import and export prices, general index, and deviation of Dollar Exchange from relative rise in prices, January, 1920—May, 1925.

General index (that of the *Svenska Dagbladet*)

Index of export prices (*Svenska Dagbladet*) 1913 = 100

Index of import prices (*Svenska Dagbladet*)

Deviation of dollar exchange below relative rise in prices in percentage of this (from Diagr. VI)

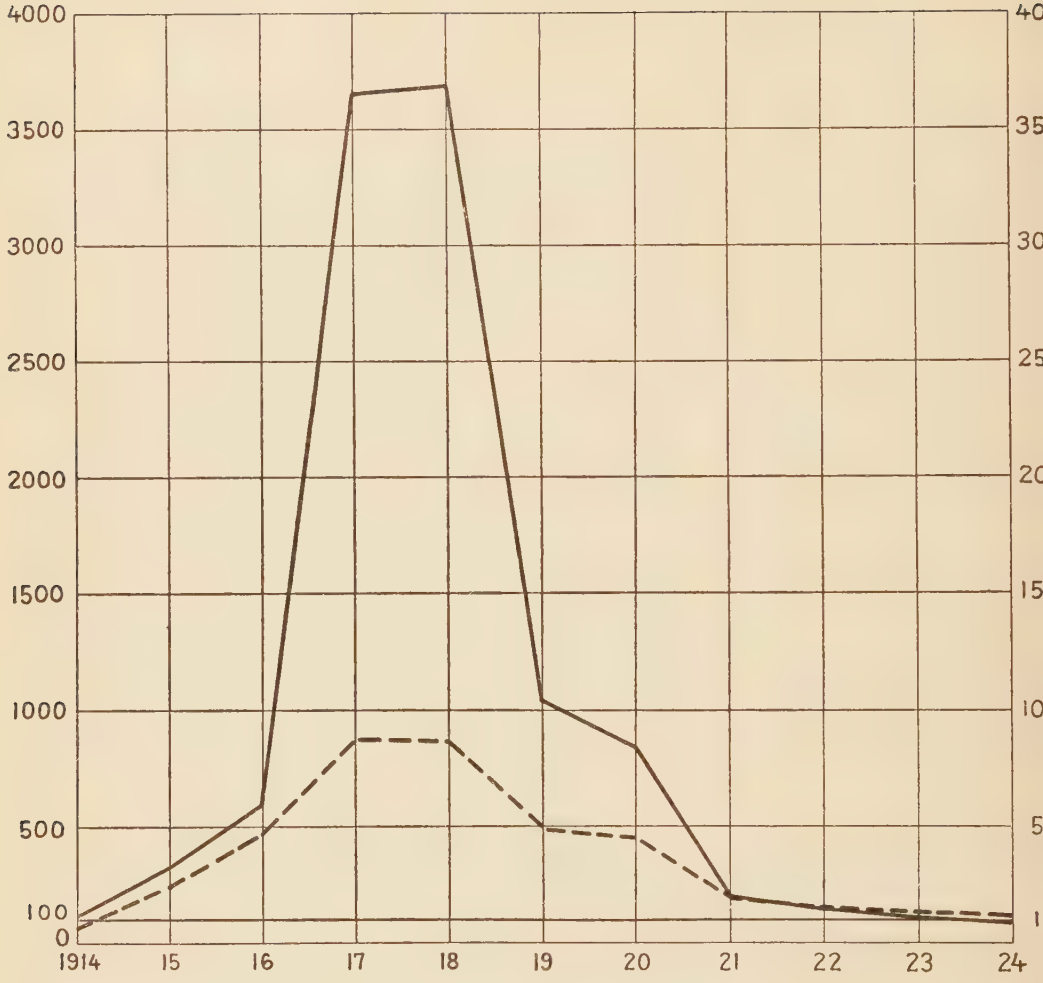


Diagram X

Index of freights, 1914-1924.
Annual averages (1912-1913 = 100.)

Coal, Great Britain-Sweden
Lumber, Sweden-Great Britain

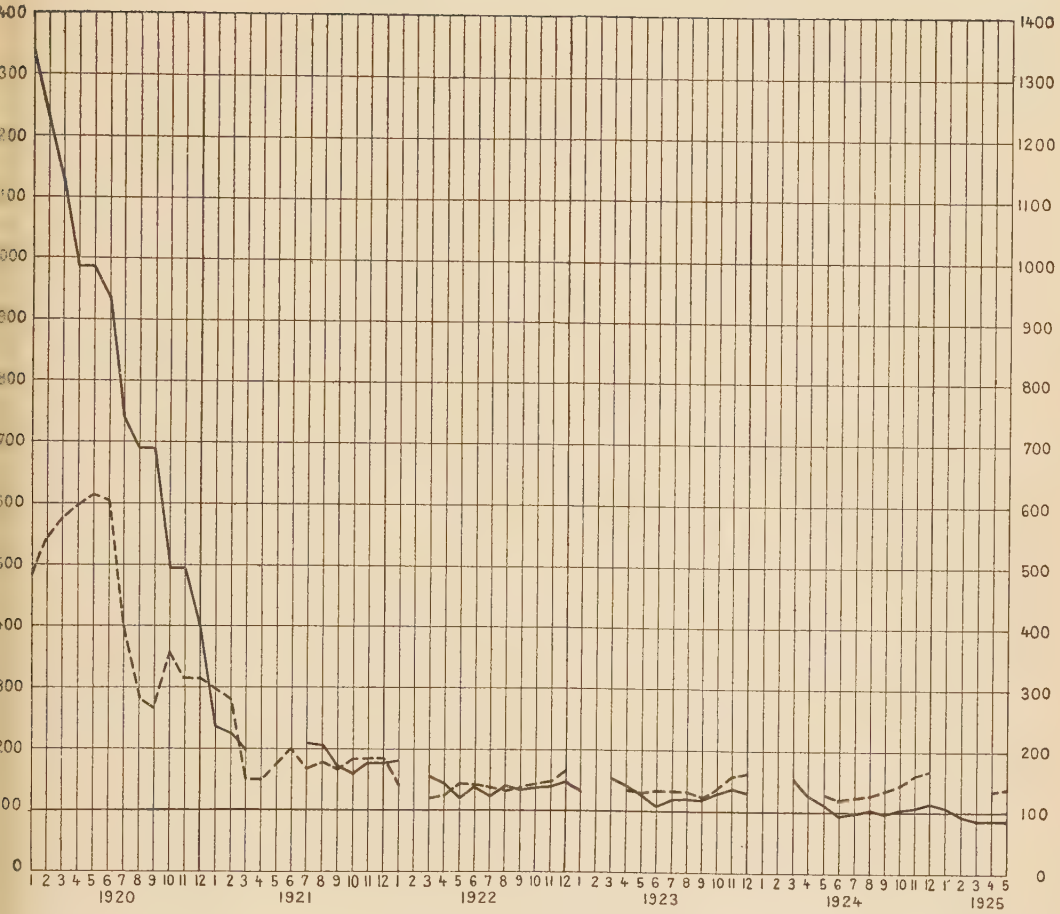


Diagram XI

Index of freights, January, 1920—May, 1925.
Monthly averages (1912-1913 = 100.)

Coal, Great Britain-Sweden

Lumber, Sweden-Great Britain

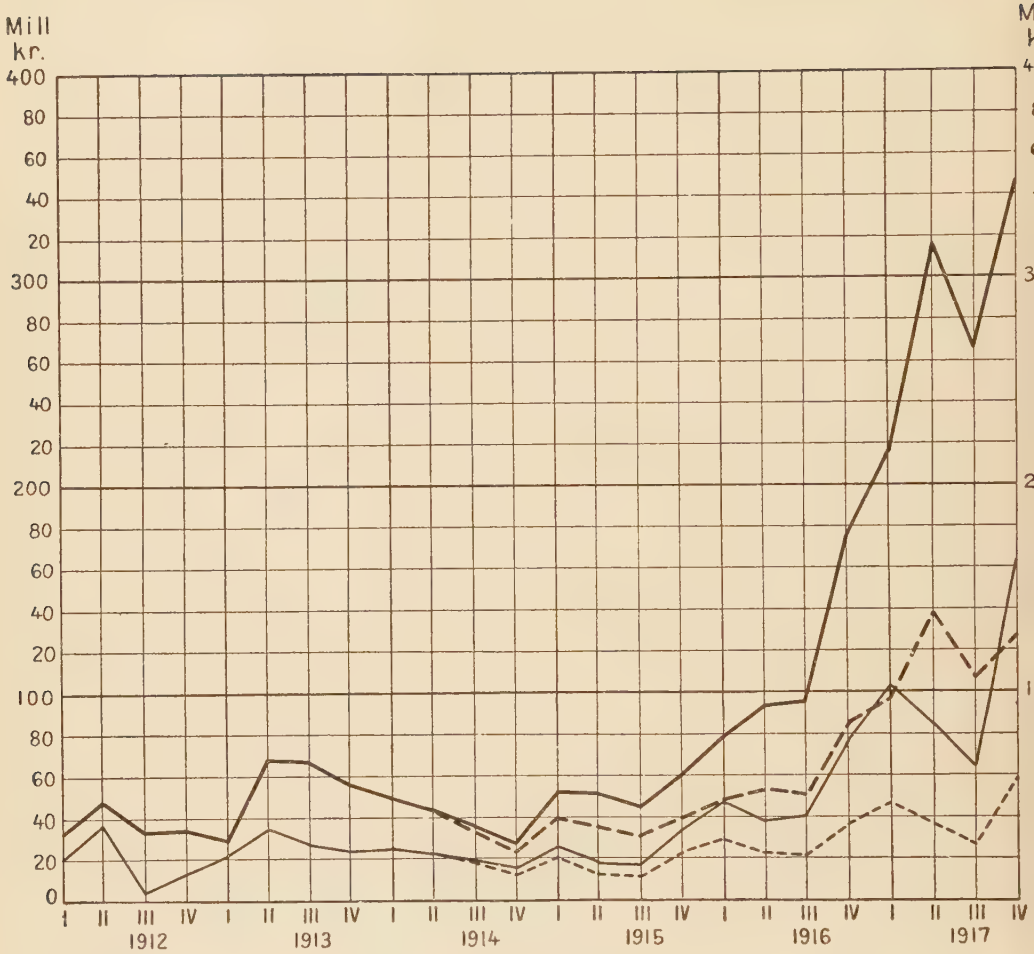


Diagram XIII

Issues of stocks (bonus shares included), 1st quarter, 1912, to 4th quarter, 1917.

Total par value of stocks issued, in 1000 kronor
Same total, in money value of 1913-1914
Capital subscribed in new companies, in 1000 kronor
Same total, in money value of 1913-1914

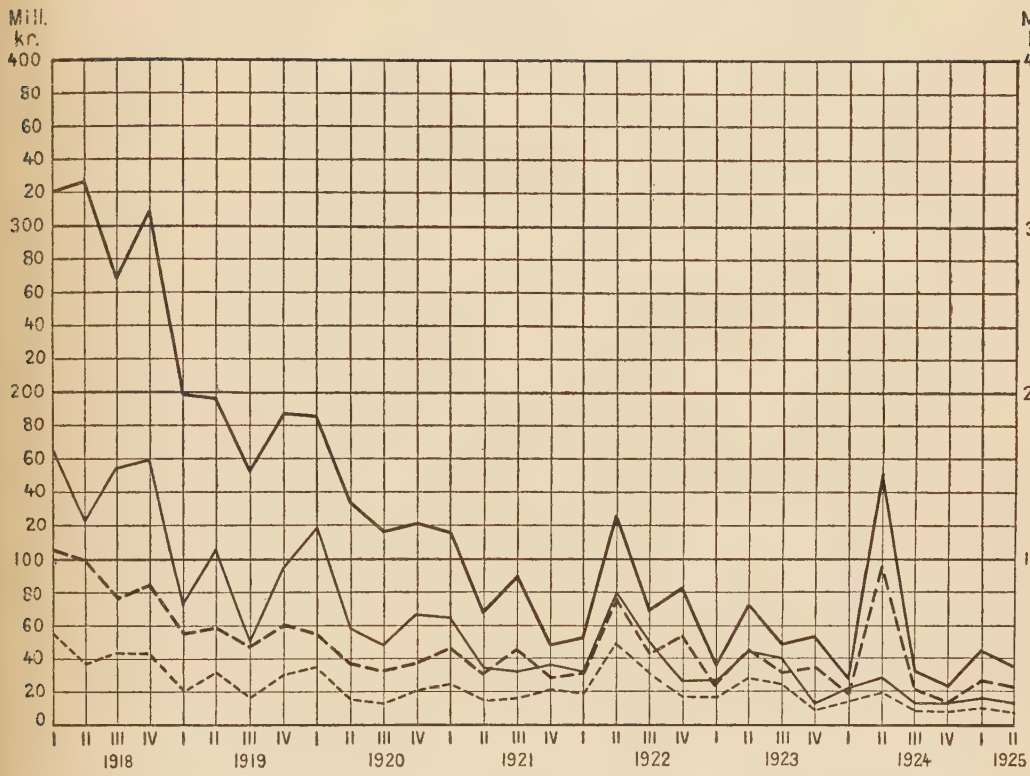


Diagram XIV

Issues of stocks (bonus shares excluded), 1st quarter, 1918, to 2d quarter, 1925.

Total par value of stocks issued, in 1000 kronor
Same total, in money value of 1913-1914
Capital subscribed in new companies, in 1000 kronor
Same total, in money value of 1913-1914

II

NORWAY AND THE WORLD WAR

BY WILHELM KEILHAU

NORWAY AND THE WORLD WAR

PREFACE

Of all neutral countries in the World War Norway was perhaps most influenced by it. In a way she was even involved in it. Her mercantile marine, being of the foremost rank in the peace-time struggle for the control of the sea, was a favorite object of the attacks of the German submarines, and sustained losses heavier in comparison than those of any other nation. In absolute figures Great Britain alone had a greater loss. And, within Norway's own borders, another war was fought, or at least one part of it—that commercial war that was waged between the two great groups of enemies. Indeed, in Norway, the direct effects of modern warfare upon production and trade in neutral countries can be studied with great profit.

How it came that the War so powerfully influenced Norway has, up to now, been told only in part: what has been written upon it is scanty and insufficient. The author of this present treatise, therefore, following the course indicated by the editor in chief in his preface to the whole series of this History, concentrated his attention upon the archives. He succeeded in obtaining unlimited access to those of the Foreign Ministry, thanks to the kindness of Mr. Ivar Lykke, then Minister of Foreign Affairs, and Mr. Esmarch, the permanent under-secretary of state. The author is also glad to state that the current discussion in the press of Norway since the publication in October, 1927, of the Norwegian edition has not revealed any misapprehension of facts. Thus, the description of events here presented may have a claim to be considered as authoritative.

As a consequence of the author's purpose to give an elaborate explanation of the immediate effects of the War upon the economic life of Norway, he had to limit himself to the period of the War. If he had deviated from this course, and included post-war events as well, the unity of the work would have suffered; for, during the years of liquidation, the dominating influences in our economic development must be attributed to circumstances other than the War.

Including a statistical appendix, the Norwegian edition of this monograph comprises 357 pages. The author is himself responsible for the abridgment.

Wilhelm Keilhau

Oslo, July 1, 1928

CHAPTER I

THE PANIC AT THE OUTBREAK OF THE WAR

July, 1914, was an extremely warm month. Day after day the whole of Norway lay bathed in sunshine. All the townspeople who could afford it were holiday-making at the seaside, in the country, or high up in the mountains. Nearly every man of importance had left the capital during the last two weeks of the month. This is undoubtedly the chief explanation of the curious fact that the development of European events from the murder at Serajevo up to the very last days of July made hardly any impression in Norway. Then the approaching danger suddenly dawned upon the holiday-makers at the tourist hotels, mountain cottages, and bathing places, and at once they all became panic stricken. They hurried home, overcrowding trains, coast steamers, and omnibuses, and choking the most outlying telephone lines by hurry calls for the latest news.

On July 23 Austria sent her ultimatum to Servia, and on the twenty-fifth the Austrian Ambassador left Belgrade. On the twenty-seventh the stock exchanges closed in Vienna, Budapest, and Brussels. On the twenty-eighth Austria declared war on Servia. But the Christiania Bourse, even on the twenty-ninth, was as quiet and unaffected as on any ordinary summer day, and the rates of exchange remained unaltered.

However, on July 31 everything had changed. Numbers of business men were at the Bourse eagerly scanning the latest telegrams. The Stock Exchange was closed. Telegrams from Germany telling of export prohibitions were soon causing uneasiness on the Corn and Flour Exchange. Sifted rye flour, which on the previous Friday had been quoted at kr. 16.50 per 100 kilograms, rose kr. 1, and before closing hours that afternoon was sold at kr. 20. Sterling exchange rose 3 öre, and other international exchange was similarly affected. The Norges Bank, the one bank of issue in Norway, experienced a run. People demanded gold; and large amounts were withdrawn from the private banks.

Throughout the afternoon flour prices continued to rise. One purchaser bought 600 bags of rye at kr. 25 per bag, and later in the

evening the price had reached kr. 32. By noon on August 1 several of the large flour importers in Christiania were already sold out, and quotations on cereals were suspended. Meetings of the boards of directors of the leading banks were held, at which it was decided that the six months withdrawal notice should be enforced, and that payments to savings bank depositors should be limited to kr. 100 per day.

On August 1 the Norges Bank raised the rate of discount from 5 per cent to 6 per cent. The board of directors, however, took the demand for gold quite coolly and limited themselves to checking it by those measures which in economics are termed petty devices: only six or eight people were allowed to enter the bank at once, and the gold withdrawn was counted out coin by coin.

Retail buying was also under forced pressure. There were people who bought everything they could lay their hands on. It is, however, hardly fair to characterize all heavy purchases as the result of panic. One must remember that, the night before, many housewives had returned to quite empty larders.

The real day of panic in Christiania was Monday, August 3; for on that morning even the most optimistic had become alive to the fact that the Great War was inevitable. The cables of Saturday evening had contained reports of Germany's declaration of war on Russia and the German march into Luxembourg. It was a day of pouring rain. But this did not keep crowds from gathering outside the banks, the groceries, the coal offices, and the bakers and butchers, several hours before opening time in the morning; and in many places the police had to keep order in the queues. The largest crowd gathered outside the Norges Bank; and after closing hours the janitor had his hands full picking up ladies' hats, broken and torn umbrellas, collars, ties, and loose shirt-fronts. Nevertheless, it continued to pay out gold at its head office, and the banks to meet demands for currency; but, thanks to the limit of kr. 100 per day, for all depositors, no crushingly large amounts were withdrawn. In the evening a number of retail shops were compelled to close because they were entirely sold out. Wholesale wheat and flour merchants canceled all orders on hand, and wholesale grocers postponed deliveries.

On August 3 prices continued to rise. Grain, quoted at kr. 23 per bag before the suspension of quotations, rose to kr. 40 per bag,

while individual sales at kr. 75 were made in Christiania, and at kr. 80 in Trondhjem.

In the afternoon of August 3 the retail merchants held a meeting in the Bourse and decided to introduce a kind of private rationing system for certain things. Sugar sales, for instance, were to be limited to 2 kilograms per person.

The same day the Norges Bank raised the bank rate to 6½ per cent and, at the same time, in a public statement said, "It is quite inexplicable that people not only withdraw money from the banks, but also demand the conversion of their notes into gold in order to hide it. Those who wish to lessen difficulties should not resort to this procedure."

It is a well-known fact that the managing director of the Bank, Mr. Karl Gether Bomhoff, when sending out this communication had firmly resolved not to stop the redemption of gold, and evidently the whole board backed him in this. Thus, they took a much cooler and more reasonable attitude toward the situation than financial leaders in Sweden and Denmark.

In Sweden, on August 2, the representative body of the Riksbank resolved to suspend gold payments without notice and in direct contradiction to the laws in force. In Denmark, by August 1, a government proposal to amend the Bank Act was laid before Parliament, according to which it would be left to the Nationalbanken to decide whether it would continue to make gold payments; and on August 2 the change in the law being an established fact, the Nationalbanken immediately ceased to redeem its notes.

Up to August 4 the amount of gold paid out by the Norges Bank was not more than kr. 1,300,000, and the panic had evidently decreased. A rational public opinion ought, therefore, to have supported the Bank's resolution to maintain payments as legally provided. However, the example shown by Sweden and Denmark became contagious. A leading journal demanded vehemently, but with little logic, that the Norges Bank should adopt the policy of Stockholm and Copenhagen, and the Government at once yielded. Against the protest of Mr. Bomhoff, on the same day it passed a provisional statute suspending gold payments. By the same statute a general moratorium for one month was provided for.

The cessation of gold payments had the immediate result that a great number of people began to hoard silver. They paid as largely

as possible in notes and asked for small change. Not a few went directly to the Norges Bank to get silver; and the Bank's reserve stock of silver coin in a few days dropped by kr. 1,000,000. Most of such silver was hoarded. It was put into safes, or hidden away in stockings. Those great industrial enterprises which had to pay in odd amounts had troubles proportionately.

The most peculiar manifestation of the money panic was, however, the fear of foreign money which, quite spontaneously, had even made itself felt by the end of July. At that time there were great numbers of foreign tourists in Norway. Many of them carried their own national currency, letters of credit, checks, or other money orders, which they were accustomed to exchange at any time and almost anywhere in Norway. But in many places this was suddenly brought to an end. There were even banks that refused to accept foreign money or checks. Thus, a representative of the Alby United Carbide Factories Limited, in the beginning of August tried in vain to sell a check on London for £10,000 to his bank in Bergen, notwithstanding the fact that the amount was to be used for wages due the factory's Norwegian workmen at Odda, and to meet other Norwegian obligations.

The panic at the outbreak of the War was not confined only to the large towns. It spread throughout the country. It was particularly intense along the coast and not least in the fjord districts between Bergen and Trondhjem; here large German battle cruisers had been observed as late as Sunday, July 26, and the Kaiser himself had been at Balholm up to six o'clock in the afternoon of July 25. It is, therefore, no wonder that people in those parts of the country during the first days of August thought that naval warfare would begin just outside their own doors, and that all means of transportation would accordingly be cut off.

In most places the panic lasted till Saturday, August 8. The week after, it lessened considerably, and by about the middle of the month most people began to take a much calmer view of the situation. In September they were already looking upon their own behavior in August, and particularly on the follies of others, with a certain indulgent compassion. The panic days, when discussed later on, were invariably condemned, and the merchants who raised their prices were very severely criticized.

Nor can it be denied that many foolish things were done dur-

ing the first days of the War. Stories went the round of solitary old ladies buying as many as thirty loaves of bread, and of childless couples laying in a reserve stock of Nestle's Food. Very nervous people bought everything they came across; in cases where the chief foodstuffs were rationed they went in for special articles; and in one of the coast towns the shops sold out all shoe polish and candles on the first day.

But one must not overlook the fact that the motives which drove people to make panic purchases were natural enough. To the great majority of Norwegians the outbreak of the World War came as a complete surprise. Hardly anyone had estimated what effect it would have on Norway, or how they themselves would meet it. It became suddenly plain that the country as a whole was quite as unprepared as they were themselves, and that there would be out-and-out distress if supplies were cut off. Nor could anyone tell what would happen in coastal waters. Most people had heard or read of the maritime aspirations of Germany, and took it for granted that the Norwegian coast would see the world's greatest naval war. On this assumption a cutting-off of supplies might be no distant possibility, but, on the contrary, a near probability. In such a moment it is only natural that each one makes the discovery anew that his first concern is his family, and that it is his duty to look after wife and children before anything or anyone else.

So far as the criticism of Norway's merchants is concerned, this was, in many cases, justified, as there is no doubt whatever that many availed themselves of the situation to increase prices unreasonably. But it would be unfair to put too much emphasis on a few instances of very high prices; and it might also be said that there were just as many examples of merchants continuing to sell at the old rates, and rationing their goods among their regular customers. Besides, in a community with uncontrolled prices, a strongly increased demand is bound to result in prices rising. The automatic laws of supply and demand work in that way. Finally, it must be borne in mind that a merchant's stock means to him tied-up working capital, and those wholesale merchants, importers, and shopkeepers whose stocks were exhausted in the first days of August, 1914, had no guarantee of being able to replenish them at the prices realized, even if they sold at huge profits. Besides, in most cases it was the buyers who, of their own accord, offered to pay excess prices.

During the first days of the War, both buyers and sellers were also under a tremendous nerve strain. The sudden outbreak of war had made an overpowering impression on everyone. Those peace-loving people who tilled their land and were busy at their trades felt as if an abyss had been opened before them. All safe calculations were on the verge of collapse. In a few days Norway might even be drawn into the War. The future was uncertain and unknown.

But it was not only alarm and anxiety which unbalanced people's minds. To many of Norway's thinking people the first days of war meant a crisis in their whole mental lives that went deeper than they themselves understood, a revolution in all their habitual conceptions and ideas. Those who had put firm faith in culture, civilization, and perpetual progress suddenly saw the ground give way under all such convictions—or what we may call their religion of this world. Their ideas were cut adrift, their inner life lost its bearings. Furthermore, external events were so great, so overwhelming, that everything that happened at home seemed to shrivel up and lose any objective significance. That people in their own generation should allow themselves to be driven into a world war was a disillusionment so bitter and so complete that nothing that happened later could release feelings that otherwise would have been released when obvious wrongs were committed. To many, two essential things had begun to weaken: the sense of proportion and the capacity for indignation. The panic in the days of August was something more than a series of incidental outward events. It was the first effect of a new and disturbed social mentality.

The same was undoubtedly the case over the whole of Europe. Nowhere did people remain unhurt by the psychical strain which they had gone through at the outbreak of the War. Everywhere minds became unbalanced, but in Norway all this was to become most apparent and most fateful in the economic world.

CHAPTER II

WAR-MADE ECONOMIC PROBLEMS

The outbreak of the War created many new problems for the Norwegian Government. In part they were foreign, in part internal. Between the two there was, however, an intimate connection. The aim of the Government's foreign policy must be the preservation of neutrality, that of its home policy to maintain production and commerce so far as possible at their former levels. The continuance of economic life on the old peaceful lines was, however, only feasible so long as neutrality could be maintained. Therefore, at the outbreak of the War, the problems of foreign policy took first place, and throughout the years of hostilities they played the dominating part in Norwegian politics and economy. This means that the economic history of Norway during the War cannot be written without giving an account of the many troubles with which the country was confronted in the field of foreign politics.

In the case of one country, however, the event was to prove that the difficulties were less than anyone could have expected. This was in relations with Sweden.

When the War began only nine years had elapsed since Norway severed the union with Sweden, and the Norwegians had to reckon with the fact that a certain bitterness still prevailed in that neighbor country. In addition to this, it was known that sympathies in Sweden were rather pro-German, and in Norwegian military and naval circles it was feared that an attack on Norway lay within the range of the German war plans. So important was the situation, as regarded Sweden, that it was practically out of the question for the Government of Norway to form any plans for a foreign policy, or even to make economic provisions until it knew what course Sweden would take. But it should not be forgotten that the Swedish Government, even prior to the outbreak of the World War, had candidly and clearly given Norway assurances of Sweden's desire to maintain peace in the North, and had taken the initiative in negotiations for the establishment of a Norwegian-Swedish peace *entente*.

This was done on July 29, 1914. On that day the Swedish Minister in Christiania, Baron Ramel, approached the Norwegian For-

eign Minister, Mr. Nils Claus Ihlen, on behalf of the Swedish Minister for Foreign Affairs, Mr. Knut Wallenberg, asking him "whether he would agree that during the European war at any rate, Norway and Sweden should shape their course by a guaranty never to attack each other." Mr. Ihlen replied in the affirmative, and on the following day Baron Ramel conveyed to him the thanks of Mr. Wallenberg.

This initiative was followed by negotiations at Christiania between representatives of the two Governments, and on August 8 identical communications were exchanged between Mr. Ihlen and Baron Ramel. They affirmed anew that in no case were Sweden and Norway to take hostile measures against each other.

At the time when the initial negotiations between Sweden and Norway were still going on, the declarations of neutrality of the three Nordic Powers were issued. The German Minister at Christiania had already given formal assurance of his Government's resolution to respect the neutrality of Norway. The Allied ministers, on their side, had assured Mr. Ihlen that their countries would help Norway if she should be attacked by Germany. As matters stood, the Norwegian Government resolved to confine military and naval measures to the setting up of a neutrality defense. The chief burden of the task fell on the navy, which had been completely mobilized on August 2.

By August 2 the Government had also decided upon its economic policy.

It may be said that this policy took into account five groups of problems. It dealt with the monetary confusion, the retention of home-produced necessities for internal consumption, the facilitating of threatened imports, unemployment, and war-time financial difficulties.

According to the Norwegian constitution, genuinely legal measures can be promulgated by the Government only in the form of so-called "provisional statutes," which remain in force until they can be dealt with by the National Assembly, the Storthing. Several of the Government's enactments in the first days of August were of this character. The Storthing, however, which during that summer had merely adjourned, was called together for August 8 to deal with the new problems.

As has been mentioned in Chapter I, the Provisional Statute of

August 4 had suspended gold payments, and introduced a general moratorium for one month. Both these measures were confirmed by the Storthing in new laws. The regulation of the currency situation was cared for in the following addition to Section 7 of the "Law Governing the Norges Bank":

In times of unwonted danger the King may decide that the Bank's redemption of notes shall be temporarily suspended. In the event of such suspension, notes shall not cease to be legal tender.

A Royal Ordinance covering the suspension of gold payments was immediately issued.

Another amendment to the Law Governing the Norges Bank was simultaneously passed. In Section 11 it was prescribed that if it should appear from any of the Bank's balance sheets that the statutory right of note-issue had been exceeded, the Bank should pay into the Exchequer a royalty of 6 per cent per annum on the excess amount, and this royalty should be increased by ½ per cent per month, provided the discrepancy had not been adjusted in the meantime. But to this most excellent provision there was appended the following dubious addition:

The King may reduce the royalty when the Bank's redemption of notes is postponed, according to the last paragraph in Section 7.

And, on August 19, such a reduction was permitted.

Under another law the exporting of gold and silver was forbidden.

By these three provisions of law—the suspension of gold payments, the abolition of the penalizing royalty, and the prohibiting of the international use of gold and silver—the whole foundation and structure of the Norwegian monetary system was changed. An entirely new period in Norway's economic history was initiated. It is, however, not possible from the documents of the time to discover that any of the persons concerned were aware of this.

The second major problem with which the Government had to deal in August, 1914, was the question of ensuring a continuance of the necessities of life for the Norwegian people.

A provisional statute of August 4 imposed export prohibitions on grain and flour, potatoes, coal, coke, and mineral oils. It was further decided that maximum prices could be fixed for the staple necessities, and that the Government had the power to requisition supplies

of such goods at maximum prices. The execution of these measures was delegated by the Government to a Food Commission, which was appointed the same day, with the Director of Shipping, Mr. Harald Pedersen, as president.

The Commission decided at its first meeting to request the Provincial Governors immediately to see that in each parish council a local food commission should be appointed, consisting of three members, to deal with the problems of local supplies. And its next step was to establish maximum prices for certain vital commodities, though such prices were in force for only about a month.

In order to eke out the stocks of corn, on the initiative of the Commission the Provisional Statute of August 4, in its third section, provided that, until further notice, it was forbidden to use grain and potatoes for the production of beer and liquor.

The Provisional Statute also contained a temporary prohibition of the selling and retailing of liquor. Both prohibitions were repeated in a law of August 18. In this way the outbreak of the War gave rise to the prohibition policy, which from August, 1914, up to October, 1926, played such a prominent part in Norwegian politics.

The problems of provisioning could, however, in no way fully be solved merely by taking measures to keep a tally of the stocks which already were within the country. Still more important were the questions which cropped up in connection with the necessary imports, and these caused very great difficulties in the first weeks of the War. International credits more or less collapsed. Everywhere cash payments were asked for. Therefore, early in August there was a heavy demand for foreign currency, especially dollars and pounds. Foreign moratorium laws and the check on exports made it exceedingly difficult to secure cash payments abroad; and even on first-class foreign government bonds it was not possible to raise credit in the first days of the War. The difficulties would have been considerably less if the Ministry of Finance had, before the outbreak of the War, made use of its authority to raise a great foreign loan. As matters stood, in the first weeks the Government could not offer any assistance. The bank of issue was in a more favorable position. It had, according to Section 10 of the Law of 1892 Governing the Norges Bank, authority to have "one-third of its bullion reserve on deposit abroad." The bank was, therefore, able to draw on its foreign connections; and, in the course of the first months of the crisis,

it placed £600,000 in foreign currency at the disposal of the import business. Besides this, the bank gradually managed to secure considerable amounts in dollars through purchases from German bankers. The Government, nevertheless, found it necessary to place two comparatively expensive loans, one in England for £600,000 in Treasury Bills, and the other in the United States for $3,000,000 in Treasury Notes, both at an effective interest of 6.8 per cent.

It was not, however, only the difficulties in securing cash payments that checked imports in the first weeks of the War. It was also the shipowners' fears of the new war dangers. It was not possible at that moment to prophesy how great these might become. Nobody knew how the naval warfare would take its course; nobody could imagine what floating mines and submarines would mean to the shipping trade. The first catastrophe suffered by a Norwegian ship took place on August 7 when the steamship *Tysla* of Tönsberg, 4,676 tons, on a voyage from Port Pirie in Australia to Rotterdam with a cargo of lead and zinc, struck a mine at the entrance to the Scheldt and sank with a loss of three men. Very good freights were now being offered, but the old marine insurance policies did not cover war risks, and it proved impossible to insure Norwegian ships abroad against such war risks, at reasonable premiums. For instance, for a voyage across the North Sea a premium of between 25 and 30 per cent was charged in the first weeks of August.

In Great Britain, Denmark, and Sweden, the Governments in the first days of the War allowed their Ministries of Finance to take over a substantial share of their war risks. In Norway, however, such an arrangement offered its own perils. In relation to the size of the population and the financial resources of the State, the Norwegian mercantile marine was the largest in the world, and the Norwegian shipowners were known for their inclination to charter their ships for dangerous voyages when high profits were tempting. The Norwegian Government, being well aware of these facts, after due consideration decided to leave it to a committee of experts to deal with the question.

This Committee was appointed by a Royal Ordinance of August 11, 1914, with the well-known shipowner and politician, Mr. Joh. Ludw. Mowinckel, as chairman, and as early as on August 14 they delivered their report. They had arrived at the conclusion that the best arrangement would be mutual but compulsory insurance. They

gave it as their opinion that it would be of vital importance to the country to maintain the shipping trade; but as that could be done by the shipowners themselves it would not be right to ask for any financial support from the Government. The law ought only to secure a suitable apportionment of the new burdens. The views of the Committee were accepted by the Storthing, and in the Law of August 21, 1914, it was stipulated that such mutual insurance should cover "all damage proved to be the effects of war and of measures taken by governments for war purposes," and "losses incurred by reason of a vessel being for a certain period beyond the disposal of its owner on account of capture, confiscation or other such direct interference on the part of any belligerent power." All registered tonnage was to be ensured according to the value fixed for the hulls, but not exceeding kr. 1,800,000 per keel. Insurance would be paid only if the damage or loss had been suffered during a voyage, notice of which had previously been given to and accepted by the War Insurance Board of this new institution, the *Krigsforsikringen.*

In order to take over the insurance against war risks on commodities en route to and from Norway there was later formed a limited company, the "Varekrig," with a capital of kr. 1,300,000. It took upon itself 20 per cent of the risk, while 40 per cent was covered by the State, and 40 per cent reinsured by private Norwegian underwriters.

A natural consequence of the checks to imports in the first weeks of the War was a great scarcity of coal and raw materials from abroad. Moreover, some industries got old orders canceled, and the great factories owned by foreigners suddenly ceased to pay wages. The result of all this was a heavy increase in unemployment. In August about 28 per cent of all union workers were affected by such industrial difficulties, and the authorities considered that conditions were even more unfavorable for unorganized labor.

The Government at this time feared that excess unemployment would become a normal phenomenon during the whole war period, and it appointed a large committee with far-reaching powers to combat this new social evil with full force from its very beginning. However, excess unemployment proved to be but a passing phase. By the end of September, 1914, more than 96 per cent of all organized workers were again employed; and during the four years that followed unemployment was practically unknown in Norway.

The committee on unemployment, therefore, had indeed very little to do.

The extended State activity which began in August, 1914, naturally drew heavily upon the country's finances. It at once became evident that the budget would be exceeded. But it was not easy, at that time, to arrive at any estimate of what the disbursements would amount to. The Government calculated upon kr. 10,000,000. The Storthing, however, granted kr. 15,000,000. But from what source was the needed sum to be obtained? The first thought of the authorities seemed to be the Reserve Fund of the State, which then amounted to kr. 40,000,000. They asked the Storthing for permission to use it, which was unanimously given. However, the deposits in the Fund were chiefly invested in gilt-edged foreign securities, which just then were quoted very low; the Government, therefore, would not sell them and preferred to borrow.

If, to end this chapter, we were to try to sit in judgment upon the policy of the Norwegian Government during the fall of 1914, we should have to stress the fact that it called for intervention on the part of the authorities in a number of economic interests which up to then had been almost entirely beyond its field of activity, but that measures of this kind became unavoidable on the outbreak of the War. It must also be said that, on the whole, from August 2 the Government acted with promptness and resolution, and that the steps it took were adequate to the situation. Nearly all its decisions met, therefore, with the general approval of the public, and were confirmed and endorsed by the National Assembly. Even the Parliamentary Opposition was silent. The new policy was, in fact, inaugurated under the joint responsibility of all the leading men of the State.

The loyalty of the Opposition, which continued during the greater part of the war period, was, however, not always for the best. In the political life of Norway the Opposition had long ago had a monopoly of public criticism. When the parties not in power now began to support the Government, practically speaking all criticism ceased. The Cabinet in this way lost the corrective they were accustomed to. This was especially dangerous in those years. In the fields where the new State activity unfolded itself the limits of the Government's authority, as a matter of fact, were not fixed by any precedents; here they stood unfettered by earlier decisions and con-

ventional rules. In addition, the perilous position of the country called for vigorous leadership. It was, therefore, only natural that the Government's power gradually grew, and soon attained a scope previously unknown in constitutional Norway; indeed, it must be said to have been in contradiction to the fundamental laws of the country. An Opposition, scrupulously and critically disposed, would, under such conditions, have been a safeguard against abuses of government powers.

But where the policy of August, 1914, had its weakest points, the Opposition seemed to have been devoid of ideas. This applies particularly to the lines followed by the Minister of Finance. If we analyze these we find that they deviated from the ordinary course of the country's economic policy. The chief aim of the measures which in other ways were adopted, was to counteract panic and safeguard the future. The Minister of Finance yielded to the panic. Both the introduction of the moratorium and the order to the Norges Bank to stop gold payments were surrenders to the panic feelings of the moment. Nor did the financial policy of the August Storthing show foresight for the future. Grants were obtained for various millions, and the Government succeeded in getting permission to use the State Reserve Fund. But no measures were taken to cover the anticipated deficit in the current budget by new sources of revenue. Viewed from a purely financial standpoint it could probably be found that the extraordinary situation in 1914 justified the use of extraordinary means. But seen from a psychological angle, it would, undoubtedly, have been more advantageous to cover the unavoidable deficit by imposing further taxes; during the panic days a warm and living patriotism was aflame in the people, and an appeal to the spirit of self-sacrifice in them would have been understood by all. But the measures were taken and the grants given, while the payment was left to the future. It was an excusable way out of the difficulties, but the choice of it led Norway's financial authorities into a dangerous course.

CHAPTER III

NORWAY'S ECONOMIC POLICY DURING THE FIRST TWO YEARS OF THE WAR

The economic history of Norway during the World War may be divided into two distinctly marked periods, each of about two years. The first extends from the outbreak of the War to August, 1916; the second covers the remainder of the War.

The first period bears the impress of comparative quietness. After the panic at the beginning of hostilities had calmed down economic life very soon fell into its customary groove again. It was, indeed, a fact that the events of the War always had a strong and unmistakable influence on all economic activity in Norway, and that hardly any measures could be concerted or any plans made without the war situation being the most important factor to take into consideration. But there was no great deviation from the lines previously followed, and this period indicates a continuance of a peaceful development of production and trade with certain necessary modifications, alterations, and adjustments.

This may be attributed in no small degree to the psychological fact that both our business men and our statesmen, at any rate up to the beginning of 1916, acted on the supposition that the War would be only of short duration.

In this short-war theory we may find the chief explanation of the somewhat leisurely manner in which the Minister for Foreign Affairs, Mr. Ihlen, dealt with the difficulties he encountered in his commercial policy. As a matter of fact, during the first two years of the War he firmly believed that peace was near, and that his main object, therefore, must be to avoid acute conflicts; for it would, indeed, be quite foolish to push any difficult situation to the extreme if the War might come to an end at any moment. When peace was declared it was to be presumed that everything would right itself; to get the decision of a question postponed meant, therefore, for Mr. Ihlen, in one case after another, identically the same thing as a solution of it. The most fitting term for his whole method of procedure might seem to be "the policy of postponement."

Mr. Kurt Bergendal in his treatise on Sweden's commercial policy

during the World War (published in the Swedish volume of this series) has pointed to the fact that the maintenance of international law was characteristic of Sweden's commercial policy in the first years of the War. This was no doubt due to the fact that the Swedish Prime Minister was an eminent theorist in law. Mr. Ihlen was a business man. He had no ambition to act as a spokesman for the principles of international law. His aim was to conduct Norway's foreign policy along the lines which, according to his practical judgment, were best suited to the interests of Norway. When protests were made by the Nordic powers against the belligerents, they were, therefore, seldom or never at the instance of Mr. Ihlen; the initiative was generally taken by Sweden, and this fact accounts for the cool and theoretical formulation of nearly all such protests.

Mr. Ihlen's lack of interest in international law and the subtleties of its principles also had the result that the coöperation between the Norwegian and Swedish Governments during the World War was carried on more easily than anyone might previously have imagined, and without the handicap of petty friction over matters of form.

Early in the autumn of 1914 the Norwegian-Swedish *entente* was extended, inasmuch as the Danish Government was also drawn into all the above negotiations. From December, 1914, on, conferences were held between the leaders of the three countries, sometimes meetings of their kings, sometimes of their ministers. The official records of these conferences do not contain very much. No decision of any great importance was taken. But the non-committal discussions which took place, and the feelings of friendship which arose became significant. The members of these northern governments in the World War period knew each other, and coöperation among them was, therefore, not difficult to maintain. To Norway this proved to be of importance in one of the most critical situations that arose.

The first discussions dealt with the difficulties that neutral countries encountered because of the continual alterations made by the belligerents in the lists of contraband. The first official notes published both by Great Britain and Germany were, it is true, in the main in accordance with the Declaration of London of 1909. But a British Order in Council as early as August 20, 1914, broke the rules of the Declaration; for this Order decided that conditional contraband should be subject to capture if the goods were consigned to an agent of any enemy State, or to any person in territory belonging to

or occupied by the enemy, or if they were consigned "to order," or if the name of the real consignee could not be ascertained from the shipping papers. Likewise it did away with the important Article 35 of the Declaration, and made conditional contraband en route to enemy countries subject to capture even when it was to be discharged in an intervening neutral port.

The said Order put an end to practically all transport to the Central Powers of goods which had to pass the British naval guards. This especially affected the United States which was now kept from consigning its German exports to Rotterdam or to any other Dutch port, and which could not get its goods into Germany without, at some point or other, having them come under the control of the British navy.

Norway was in quite another position. Our ships could pass through Norwegian and Swedish territorial waters into a section of the Baltic Sea which was entirely commanded by the German fleet. Norwegian exports to Germany were, therefore, not rendered impossible by British rules. From an economic point of view Norway, together with Sweden, Denmark, and Holland, was placed in an exceptionally favorable position after August 20, 1914. Politically, however, the position of the country was more vulnerable than ever. Germany, whose opportunities to import were now for the greater part cut off, very soon began to insist on getting as much as possible from the few countries she could still trade with. But as Norway herself was dependent on those imports that could be obtained only from oversea countries which were completely under British control, she ran the risk of having Great Britain at any time fix such conditions for allowing goods to pass that an acceptance of them would bring the country to the verge of a war with Germany.

Both the prospects of economic gain and the danger of political complications were greater for Norway than for any of the other neutral countries in the same commercial position; for Norway had a much larger merchant fleet and, at the same time, she was much less able to live on her own products. When, from the Swedish side, it has been emphasized with national pride that Sweden asserted the trading rights of neutrals with greater determination than Norway, it must not be forgotten that Norway's position was more exposed and her risk much greater.

The contraband policy adopted by the Norwegian Government

has perhaps been most clearly stated in the following telegram from the Foreign Minister to the Legation in London, sent November 4, 1916:

> The Norwegian Government has not, during the War, prevented Norwegian citizens from carrying contraband, but at the same time has not found it advisable to assist Norwegian citizens in such contraband transport or to support or protect such carrying trade.

A perusal of the archives of the Foreign Office will show that the principles which were expressed in this telegram were followed with great consequences for Norway. When Norwegian citizens were to be given the protection they could claim, it became, however, throughout the course of the War, more and more difficult for their Government to give it; for the British Order in Council of August 20, 1914, as a matter of fact, was only the first step on a path which soon was followed by both belligerents, inasmuch as the rules of contraband were constantly made stricter, and neutral trade, on the whole, came more and more to be threatened by new restrictions.

At the end of the first two years of war the Declaration of London was finally put aside in its entirety by the British "Maritime-Rights Order in Council" of July 7, and the German Proclamation of July 22, 1916, which together, for all the rules of international law governing the transport of goods during a naval war, substituted provisions laid down solely in accordance with the interests which each of the belligerent Powers had in paralyzing all trade with the enemy. In reality it was useless for neutrals any longer to plead their fundamental rights. They had either to guard their interests through a compensation policy or to make the best possible terms with each of the belligerent Powers by the help of more or less detailed trade agreements.

At the same time, it became more and more difficult for neutral exporters and importers to abide by rules of contraband which had become so extensive and so unreasonable that even merchants who desired to obey them faithfully were compelled to disregard them.

The sea patrol which the belligerent naval forces had to maintain in order to control the transport of contraband encountered a new and great danger in the World War. It was no longer only drifting mines and hostile battleships that they had to fear; if they stopped

to search merchant vessels they also ran the risk of being torpedoed by submarines.

This gave the British naval authorities great cause for anxiety. The British fleet faced an immensely difficult task. At one and the same time the enemy's coast had to be blockaded as effectively as possible, and the fleet itself to be kept intact. While the Grand Fleet was withdrawn as far as Scapa Flow in the Orkneys, the blockade had to be carried on by a cordon of destroyers supported by older battleships and protected by certain mine fields. But even at Scapa Flow the admirals were anxious. They had got the idea that the German submarines would follow them into the harbor itself. It was knowledge of this peril that brought about the British Admiralty Order of November 2, 1914, declaring the whole of the North Sea a military area. From November 5 on, all ships passing a line drawn from the northern point of the Hebrides through the Faroe Islands to Iceland did so at their own peril. Ships wishing to trade to and from Norway, the Baltic, Denmark, and Holland, were advised to come, if inward bound, by the English Channel and the Straits of Dover, where they would receive sailing directions which would "pass them safely, as far as Great Britain was concerned," up the coast of England to Farne Island; if possible, they would here be given a safe route to Lindesnes Lighthouse at the southern point of Norway.

The Norwegian Government, through its Minister in London, on November 6 lodged a sharp protest against the closing of the North Sea. It concluded as follows:

> The measures which are announced in the Order will most forcibly interfere with Norwegian shipping and commerce, and will, it is to be feared, completely stop passenger traffic between Norway and America. Still more, they will in reality involve a breach of the principles the maintenance of which all nations up to this date have reckoned among the greatest benefits which international law ensures, namely the principle of the Freedom of the Sea.

This protest was followed by negotiations resulting in Norwegian liners being given a course north of Scotland. Numbers of Norwegian shipowners who had trampers in the carrying trade also decided to let their vessels follow the same route, and on November 20 the Krigsforsikringen (the War Insurance Board) gave its official authority for this procedure. Gradually, however, the vessels

which took the route to the north of Scotland had to give in to the British demand that they call at Kirkwall for examination. This resulted in an ever increasing British control of all Norwegian foreign commerce.

The repressive measures taken by Germany, made known in a German Admiralty Order of February 4, 1915, had still more serious consequences for Norway. This Order declared the waters around Great Britain and Ireland, including the English Channel, to be a military area, a war zone. It threatened any hostile trading vessel inside this area with destruction, and concerning neutral ships it stated:

> Neutral ships also expose themselves to danger in the war zone, because as a consequence of the abuse of neutral flags which was advised by the British Government on January 31, and the accidents of naval warfare, it will not always be possible to avoid striking neutral ships in attacks made on hostile ships.

In a communication of February 7 the British Foreign Office admitted that it considered the practice of belligerents using neutral flags to escape capture to be an established custom.

The Nordic Governments protested against both the German Admiralty Order and the British abuse of neutral flags.

As soon as the German Order was known the question was raised in shipping circles whether it was not possible to make plain the nationality of ships in another and more distinct way than by their flags. At almost the same time in Norway, Sweden, Denmark, and Holland, there was conceived the idea of painting the ship's hull with the colors of her flag. In Norway the suggestion was made by the Director of Shipping, Mr. L. H. Hansen, in a communication of February 6. Not many days later measures were taken thus to mark distinctly a number of Norwegian ships which were about to put to sea. On February 15 the Central Committee of the Shipowners' Union recommended that the name of the ship should be painted on the side with NORWAY in huge letters beneath it, and the colors of the flag in vertical stripes on both sides of it; first the blue stripes, one-half meter broad, then the white, one-quarter meter, and the red further out, one-half meter. In addition, large lanterns to light both the name and the colors of the flag were generally hung from the ship.

The first Norwegian vessel which was attacked by a German submarine during the blockade was the tanker *Belridge* of Tönsberg, a large new vessel of 7,020 tons, en route from New Orleans to Rotterdam with petroleum. On Friday, February 19, just after midnight, the ship was struck in the bow. She was then in the English Channel, seven knots south of Folkestone. The hull was lifted in the air and she began immediately to sink. The ship did not, however, go down; and the captain, without getting any assistance, managed to maneuver her to the Downs and anchor there. On investigation, pieces of a torpedo were found in the ship's forehold; one of these was marked with the word "*Sperrung.*" After the pieces had been examined in Berlin the German Government agreed to pay compensation.

The next Norwegian steamer which was struck was the *Regin* of Christiania, 1,844 tons. She sank on the morning of February 23 off the North Goodwin; the cargo consisted of coal from a Tyne port to Bordeaux. In this case, however, it was not possible to learn whether the vessel had struck a mine or whether she was torpedoed. In a great number of later cases the circumstances were the same; in the official statistics of the Shipping Board these vessels are listed as "Torpedoed or struck by mines."

Even before the proclamation of the German blockade Norwegian ships had been exposed to armed attacks by the Germans. Thus, in the fall of 1914, the sailing vessel *Helicon* of Risör, 1,640 tons, while carrying coal from Port Talbot to Coleta Colosa was captured in the Pacific Ocean by a German cruiser and deprived of her cargo. The *Helicon* suffered such heavy damages that later on she had to be condemned. On February 3, 1915, the sailing ship *Semantha* of Lyngör, 2,279 tons, on a voyage from Portland, Oregon, to Queenstown with wheat, was sunk by gun-fire in the Atlantic. But otherwise, in the first months of the War, mines caused the greatest losses sustained by our mercantile marine.

The situation, however, changed entirely after the issuing of the German Admiralty Order; in 1916 losses through the explosion of mines became less, while direct sinkings, on the contrary, continually increased. Until the end of August, 1916, it cannot, however, be said that they had reached such a number as to mean a real menace to the Norwegian mercantile marine. On the contrary, the loss was more than made up by purchases from abroad. According to revised fig-

ures in official statistics for shipping, at the end of 1913 Norway possessed 3,290 ships with a total tonnage of 2,585,751. At the end of 1915 there were under register 3,460 ships totaling 2,662,430 tons. There is no equivalent statement for the total of tonnage at the end of August, 1916. However, according to the Norwegian *Veritas* statistics, the first half of 1916 showed a net decrease of 4 vessels, but at the same time a net increase in tonnage of 42,000; and the purchase of foreign vessels, which went on throughout the summer, gives every reason to believe that Norway's tonnage grew steadily until September, 1916. Admittedly, it is doubtful whether the loss was equalized by new purchases from the viewpoint of quality; as the replacements consisted mostly of old or second-hand ships. But, where it was a question of immediate needs and of making the most of the opportunities of the moment, these old ships wholly met their purpose; and as an international economic factor it can certainly be said that the Norwegian mercantile marine reached the maximum of its capacity in August, 1916.

The decisive turning-point came in September of that year. During the fall the sinkings by the Germans increased enormously, and it was no longer possible to counterbalance losses by new purchases. In the last four months of 1916 such losses, all in all, amounted to 143 ships totaling 201,759 tons; and to add to this there was a loss of fifty-seven lives. Also, when it is a question of the war losses of the mercantile marine, the fall of 1916 thus marks a distinct division between the two periods in the war history of Norway.

The German Admiralty Order against England did not merely have immediate effects on Norwegian shipping and commerce. This time it was Great Britain's turn to make a counter move. It was announced on March 1, 1915, and put into execution by an Order in Council of March 11, which prescribed a series of measures for the halting of all transport of goods to or from Germany. On the basis of this Order in Council the British authorities could, in reality, demand that every neutral ship should discharge its whole cargo for examination in a British port. The British possessed absolute power to carry out such investigations as they desired to make; and captains of neutral ships had no option but to submit to this treatment with as much good faith and good humor as they could muster up. It was unavoidable that the examinations should give rise to friction;

and many Norwegian shipowners had every reason to complain of the treatment their ships had been subjected to. In such cases they appealed to the Ministry of Foreign Affairs at Christiania, which again had to put the matter before the British authorities through the Legation in London.

The blockade provisions of the belligerents, however, went further than the measures which they could take on their own soil or on the high seas. The commercial blockade from 1915 on was, in fact, extended across neutral frontiers and established its first line within the neutral country itself. When a neutral importer wanted to buy raw materials which one of the belligerent powers had control of he could do so only conditionally. As both belligerents wanted effectively to prevent raw materials sold to neutrals from in any way being used for the production of goods that could fall into the hands of their enemies, they demanded that neutral buyers should sign unreasonable guarantees as to the uses the said raw materials were to be put to.

So far as Norway was concerned this system was practiced both by Germany and Great Britain. To begin with it was the individual buyer, irrespective of his economic or social standing, who had to sign a personal obligation. Forms were printed for the different classes of buyers, and these had to be filled in and signed. In the event of non-fulfilment of obligations, further sales to the promise-breaker were refused. After a time there was added a clause imposing a fine in case of a breach of the guarantee.

The effect, first of all, of this system of declarations was that no business man could any longer trade directly with both Germany and England. As indirect arrangements, if they were discovered, might have destructive consequences, the majority of Norwegian merchants found it necessary to make a choice. They became, therefore, either traders with England or traders with Germany. Thus a division, based upon the foreign connections of the different firms, arose within the trade. The individual Norwegian citizen was forced in his business transactions to assist whichever of the belligerents he was most dependent upon; and the criticism which was directed by the belligerents against the Norwegian business world for not acting more neutrally must be said to have been unjustified. The belligerents themselves, as a matter of fact, did everything in their power to prevent Norwegian business from so acting.

In the fight to create for themselves spheres of interest within Norway's commercial world, Great Britain was from the very beginning in the best position. The greater part of the raw materials which were needed in Norway had to be brought from overseas and thus came within the control of the British fleet. Simultaneously, the supplies which the Germans were able to sell in this country often arrived only after much delay because the German railways held back export goods while they were moving troops. Apart from certain special branches of trade which were dependent upon imports from Germany, the result was that the larger and better known firms soon found themselves in a greater or lesser degree dependent upon Great Britain.

But in the long run it was very burdensome for the British Legation and the British Consuls in Norway to keep track of all the firms that had signed guarantee agreements: and accordingly the British authorities proposed to appoint Norwegian middlemen to act between them and such individual firms. It thus became very natural for them to apply to the branch associations of Norwegian producers or importers. These applications were received with satisfaction on the Norwegian side, as it became more and more difficult for the individual Norwegian business man to press his claims on the British Government and its agents. The result was that in the case of many trade groups negotiations were started between the British authorities, on the one hand, and a Norwegian association of importers, on the other; in several cases such associations were formed for the purpose of making such arrangements. And this ended in the establishment of extensive agreements between the British Government and several of these private Norwegian associations, the so-called "branch agreements."

The obligations which buyers of imported raw materials had to assume by both personal declarations and these branch agreements not only made domestic trade very difficult but also altered the trend of exports. To point to a single instance, the associated sardine factories were, in order to procure tin through licenses from the British War Trade Department, forced to sign declarations which debarred them from exporting goods to countries which, before the War, had consumed 12 per cent of their export total.

Under other market conditions such obstacles to the export trade

would almost necessarily have caused a considerable narrowing of the available market, with a consequent decrease in production and, inevitably, in an increase of unemployment. However, thanks to the general shortage of supplies during the War, the quantities which formerly had gone to the Central Powers were soon disposed of to other buyers. On the whole, Norwegian trade suffered rather morally than economically through the Declaration policy. It had to allow political sympathies and considerations to enter in, and was often forced to break off even the oldest and best of business connections. Merchants were compelled to take upon themselves obligations which they disapproved of or even hated, and they had to permit a foreign control which was unreasonable and humiliating. But very seldom did they suffer any serious loss of money through the restrictions put upon their liberty. On the contrary, a number of business enterprises whose old connections were cut off soon found themselves enjoying a period of great prosperity.

The industry which even by the second year of the War was most widely exposed to its influences was undoubtedly Norway's fisheries.

At the beginning it did not seem as if the War had here actually brought about any change. The year 1914 was a fairly normal one for them, and in the catch, as well as in the proceeds thereof, as also in the distribution of exports, 1914 shows a striking resemblance to 1913. Nor did the first months of 1915 seem to have caused any noticeable disturbance in the usual course of the industry. But during the early summer months of 1915 the situation completely changed.

In pre-war times the markets for Norwegian fish were widely diverse. For tinned goods the chief markets were the United States, Great Britain, Germany, and Australia; for fresh herring, Great Britain and Germany; for other fresh fish, Germany and Sweden. About three-fifths of her so-called "klipp-fish" were exported to Spain and Portugal. For dried fish the most important market was Italy, with Germany the next largest consumer.

But in 1915 the demand from Spain, Portugal, and Italy practically ceased. The buyers of Norwegian fish in countries on the Mediterranean consisted chiefly of the poorer classes of the population. Now the War caused an enormous rise in freights in the course of 1915; it became impossible to sell Norwegian fish products in these

old markets at prices which the consumer was able to pay; and the decline in exports to these markets is clearly seen in the official statistics below. Figures are in thousands of kilograms.

	1913	*1914*	*1915*	*1916*
Klipp-fish to Portugal and Madeira	17,660	15,880	7,530	60
Klipp-fish to Sweden	16,230	16,920	11,270	1,660
Dried fish to Italy	9,340	9,490	4,630	350

On the other hand, large purchases of fish for foreign account took place in Norway. The west coast particularly was overcrowded with German buyers who visited the fishing grounds with boats—for the greater part foreign trawlers—chartered especially for the purpose. They went directly to the fishermen and salters, outbid the Norwegian business men, and loaded the fish where purchased. The way in which such sales were made makes it, naturally, almost impossible to give any reliable figures for them.

By then, too,—in the course of the spring of 1915—the shortage of food and fats began to make itself felt in Germany; and throughout the summer the German fish buyers became less and less particular as to the prices they paid. Operating with two "centrals" in Christiania as their leading offices they bought all they could get hold of, even if they had to pay figures considerably higher than the latest quotations. Accordingly, dating from the fall of 1915, there was an enormous increase in price in the case of nearly all fish products. Thus fat herrings, which in pre-war days brought from 10 to 12 kroner per barrel of 75 kilograms were, early in September, 1915, sold in Bergen at kr. 40, and in Christiania at kr. 55; and medicinal cod-liver oil, which previously had brought between 80 and 90 kroner per 100 kilograms, was, in the fall of 1915, sold at from 200 to 300 kroner per barrel.

In two ways these German purchases had effects disadvantageous for Norwegian consumers of fish. In the first instance, the prices were driven up much faster than the general level of income, so that fish products suddenly became luxuries. In the second place, the German buyers were so active that it began to be difficult for Norwegians to procure fish, even if they were willing to pay the new high prices; for the fisherman no longer brought his catch to land. He sold to the German boats while he was still at sea.

But for the fisherman himself the new state of affairs was, of

course, little short of miraculous. He made money as never before. In the north of Norway in September, 1915, it was no extraordinary occurrence for a boat's crew in a single night's catch to take fish to the value of kr. 400.

Through this German buying new and antagonistic interests within the industry were called to life. The fishermen cherished the most lively wish that they might have the chance to continue selling all they could to the Germans while, on the other hand, there was growing up a steadily increasing discontent between the leaders in the export trade and others who were losing their connections and no longer had a chance of making their usual profit, through being pushed out by the German buyers and their helpers.

Still more serious was the growing hostility in all that part of the population which was not connected with the fisheries. In particular, the workers in the towns, the government employees, and the peasants uttered grave complaints; in the country districts the charge was made that fishermen were allowed to sell all their fish to foreigners at a time when the export of a large number of agricultural products was prohibited by law.

Under these circumstances many measures were taken by the State to ensure supplies of fish for the home market. It was forbidden to export certain fish products, with exemptions for those who placed a percentage of their catch at the disposal of the Food Commission at fixed prices. Export duties were imposed. Finally, purchases of herrings and cod which were sold to the consumers at reduced prices were made, on behalf of the State, up to the amounts now being produced by the export duties.

The Government had thus, and in different ways, taken up the struggle with the German buyers; but, at the same time, it must be said that at the end of 1915 they had almost entirely obtained control of the Norwegian fish market.

This had naturally received attention in Great Britain. In the last months of 1915 it was the general opinion in British circles conversant with the state of affairs that Norway's fish exports to Germany must, in one way or another, be stopped. Any of three methods might be resorted to. First, diplomatic action to compel Norway to lay an export prohibition on all fish products; second, prohibiting the export of all English raw materials to Norway's fisheries, and using the rules of contraband to keep the Norwegian fisherman

from obtaining anything other than could be procured from Germany; and third, the adoption of the method used by the Germans: the English also could begin buying in the open Norwegian market, and beat the Germans as buyers. In other words, they could start a buying blockade.

The Norwegian Director of Fisheries, Dr. Johan Hjort, had, by letters from his British connections, been kept well informed upon all this. As it was his opinion that the stoppage of coal and oil imports, which were controlled by Great Britain, would mean danger to all the Norwegian coastal fisheries, and also lead to political friction between Great Britain and Norway, he decided to go over to London with a view to getting England to agree to the buying-blockade alternative, and the Foreign Minister, Mr. Ihlen, with the Minister of Commerce, Mr. Friis Petersen, were behind him in this. He went over first in January, 1916, and it proved that he had such excellent connections in England and was so well able to plead the interests of the Norwegian fishermen that he succeeded in inducing the British authorities to accept his plan. For the purchase of Norwegian fish there was set aside £10,000,000.

On January 24 the highest official in the British fisheries, Mr. H. G. Maurice, came to Bergen for the purpose of organizing purchases. On the same day Dr. Hjort was requested by the British consul in Bergen, Mr. Mackay, to assist Mr. Maurice, and these two gentlemen had a lengthy conference. Mr. Maurice stated that as the seasonal fishing had already begun there was, in his opinion, no time to set up a buying organization and purchases would have to be made most privately. He also emphasized the necessity of keeping secret, as long as possible, the fact that it was the British Government that was buying; he meant that otherwise prices would go too high. With this in mind Mr. Maurice desired to work through a single buyer, and requested Dr. Hjort to name someone to whom he might apply. Dr. Hjort had hoped that the buying could be so organized that every Norwegian merchant would be given an opportunity to profit by it. But Mr. Maurice was firm in his attitude and Dr. Hjort then suggested that he might apply to the owner of one of the largest firms in the fishing trade, Mr. Albert Martens of Bergen, who, after a time overcame his scruples and declared himself willing to undertake the task on condition that the British Government would give a "guarantee that as long as the War lasted, or at

least as long as his purchases continued, the Norwegian fishing industry would be given every facility to import coal, salt and hemp." On February 5 the agreement was made and, on this basis, signed.

Few events in the history of Norway during the War make it plainer that her foreign policy and her commerce had in those years become absolutely indissoluble than this contract closed by a fish merchant in Bergen, which, in reality, was an international document of great importance, not only for a whole Norwegian industry, but also as a basis of British policy toward Norway.

Even the wording of the agreement between Mr. Martens and Mr. Maurice contained a certain strain of the diplomatic. The contract began with an introduction in solemn words stating the purposes of the agreement. The signing of it was accompanied by an "exchange of notes" between the two parties further emphasizing the aims and objects of the contract. And in the communication from Mr. Martens these words occur:

> I presume from the letter of Mr. Findlay and from the initial words of the contract we have signed today, that His Britannic Majesty's Government are anxious to do all in their power to facilitate the work of the Norwegian fisheries. I therefore trust that by accepting this view I will have obtained the active support of His Britannic Majesty's Government for the Norwegian fisheries. . . .

Mr. Maurice's reply, which was sent the same day—February 5, 1916—ran as follows:

> I have received your letter of today with regard to your signature of our Contract and I am satisfied that it expresses correctly the intention of His Majesty's Government.

The British blockade buying began immediately, and conditions in the Norwegian fish market now became unique. Through commissioners, purchasing "centrals," and agents, three governments were actively buying, two of them for the purpose of securing their own supplies and the third to prevent exports to a country it was at war with. The fishermen had full knowledge of the purchases being made through German "centrals" and Norwegian commissioners; but Mr. Martens, at least in the beginning, succeeded in keeping the nature of his buying quite secret. People thought, therefore, that Mr. Martens was a newly arisen Croesus who had made a fan-

tastic fortune in the fish trade of the year before, and who was now trying to make a private corner in fish in order to offer his stocks both to Germany and England and sell them to that Power which could pay him the most. Under these conditions it was not at all strange that prices for Norwegian fish quickly rose to an undreamed-of level. Mr. Maurice has stated that the average figure paid by the British for fat herrings was kr. 89 per barrel, for other herrings kr. 70 per barrel, for salted fish kr. 83 per 100 kilograms, and for medicinal cod-liver oil kr. 480 per barrel. Altogether, and by the end of March, Mr. Martens had bought to the amount of kr. 140,000,000; and kr. 20,000,000 was placed at his disposal for April.

The Germans did not understand that these purchases were financed by the British Government. They, therefore, made offers for Mr. Marten's stocks. The British could have sold their oil at a profit of kr. 8,000,000, and their herrings at a gain of kr. 30,000,000. But it was not with the purpose of making profits that these purchases had been inaugurated.

However, after Mr. Martens had rejected the German offers he began to fear it would be impossible to keep the actual facts secret any longer. Mr. Maurice also feared that the whole affair would be divulged, and for this reason the British authorities came to desire an alteration in the arrangement. The rise in prices worked even more in the same direction. Should the buying go on at the same level it seemed as if there would be no limit to the upward movement.

When, in April, Dr. Hjort was again in London to arrange for the equipment of the fishing fleet which was to go to Iceland, he was informed of the controversy: One side maintained that Great Britain ought to stop supplying raw materials to the Norwegian fisheries, the other that such supplies ought to go only to those fishermen who agreed to sell the whole of their catch at fixed prices to agents authorized by the British Government. The latter plan meant that the Norwegian people must learn of the British purchases, and that, therefore, these would have to be made quite publicly. The British Minister of Commerce, Mr. E. G. Prettyman, took the latter view. In coöperation with Dr. Hjort he worked out the draft of a proclamation which was intended to be addressed to the Norwegian public and which gave full information of the previous purchases. And the Chancellor of the Exchequer decided to allot a further sum of

£14,000,000 to be used for the additional buying demanded by the plan proposed.

The Norwegian Minister of Commerce, Mr. Friis Petersen, however, refused to give his consent to the publication of a British proclamation to the Norwegian public. With full right he maintained that it would be against international custom if the citizens in one country were addressed in this way by the Government of another. He also feared that a counter proclamation might be made by Germany. The plan for the continuation of buying got no further and Dr. Hjort had, therefore, to be content with arranging matters for the Iceland fisheries. For them he was obliged to give the British Government the option of buying all the Iceland fish at a price of kr. 45 per barrel of 75 kilograms, and all herring oil at kr. 105 per 100 kilograms, both c.i.f. Norway. Furthermore, what was not bought from the fishermen in this way was to be sold only to Norway, Sweden, and other countries authorized by the British Government.

The heavy seasonal fishing being over there was, at this juncture, no immediate hurry, and it was accordingly decided that the question of the continued relations between the British Government and the Norwegian fisheries should be left in abeyance until the end of July and then taken up for consideration from both sides. These negotiations took place at Christiania, and they formed the stepping-stone from the first to the second and more difficult period in the economic history of Norway during the World War.

In the meantime the difficulties in the way of obtaining home supplies of fish were constantly increasing. The measures taken by the Food Commission were generally held to be quite insufficient; and, at the same time, they caused an ever growing discontent among the fishermen, who made complaints through their representatives in the Storthing. When the Food Commission, with the approval of the Government, on June 3 laid a prohibition on the export of certain fish staples thirty-four members of the Storthing, all belonging to the party in power, sent a letter of protest to the Government criticizing the Food Commission most severely.

The export prohibition of June 3, strange to say, had been handled by the Ministry of Agriculture, the Premier, Mr. Gunnar Knudsen, being himself in charge. This gave political significance to the letter of protest. It was, therefore, anticipated that Mr.

Knudsen, as the leader both of the Government and the party, would make the reply himself. Instead of that he simply sent the letter to the Food Commission with a request for its opinion. The Commission took this as evidence of a planned retreat by the Government and immediately asked to be released from its duties. It was then suggested in the press that a new ministry should be created so that the official carrying out the food policy of the Government could be endowed with constitutional and parliamentary responsibility. Mr. Knudsen adopted this idea, and on July 25 he induced the Storthing to pass a unanimous resolution providing for the establishment of the so-called Food Ministry (*Provianteringsdepartementet*). The Governor of Romsdal, Mr. Oddmund Vik, was appointed chief of this ministry.

The complex conditions in the fisheries market thus resulted in a complete reorganization of public activities set going to provide Norway's people with the necessary amount of food. The transition from the first to the second period in the country's economic history during the War is thus, in this field, also marked by an important event: the retirement of the Food Commission and the establishment of a new temporary Ministry with the sole task of providing for Norway's food supplies.

There has been a great difference of opinion with regard to the policy that was followed by the Food Commission. It should perhaps be admitted that it thought too much of satisfying the claims of the day, forgetting the importance of working in accordance with fixed principles and far-reaching plans. It must, however, be said in this connection that one member of the Commission, Professor Skeie, had, in the fall of 1914, already proposed to the leaders of the National Assembly that a general prohibition should be put on the export of foodstuffs as the initial step in a compensation policy with which to meet that of the belligerent powers, but that this proposal had been rejected.

Most of the work of the Commission had been devoted to the obtaining of supplies of grain and the questions connected therewith. The difficulties in this field were enhanced in view of the disappointing crops both in 1914 and 1915. The summer of 1914 in the principal agricultural districts had been far too dry, and that of 1915 too wet. The yield of 1914 was in particular a very poor one. While the country's total crop of cereals and legumes in 1913 was 325,000

tons, and in 1912, 321,000, in 1914 it fell to 239,000 tons. In 1915, which had a very good September, and considerably larger sown areas than the previous year, the crop reached a total of 280,000 tons, but was of unequal quality. Thus potatoes, to a large extent, had been damaged, partly by disease and partly by frost. Both in the years 1914-1915 and 1915-1916 there was accordingly a greater need than usual for imports. After private importing had again begun the Commission's attention was centered especially on securing reserve stocks. On June 30, 1916, it possessed, itself, a total of 60,000 tons of grain, and had also induced the various parishes to store another 40,000 tons.

In 1915 steps had also been taken to make certain that grain growing in Norway would be profitable. On May 8, 1915, the Storthing resolved "to ensure to the country's grain growers for the budget year, July 1, 1915, to June 30, 1916, the same net returns for their grain that they presumably would obtain if protective duties on a sliding scale were introduced: Wholesale prices for imported grain were not to fall below 16 öre per kilogram for wheat and rye, or below 14 öre for oats and barley." But prices continued to rise, so that this guarantee never came into effect. The discussion as to its most practical form had, however, resulted in a most important decision by the Storthing. In a law of August 20, 1915, it gave the Government authority to introduce a State monopoly for the import of cereals "and other necessaries of life."

But, up to 1917, there was no need to resort to such measures. Importing, generally speaking, went on undisturbed, and it was even possible to accumulate certain reserve stocks. In this field, as well as in most others, the great difficulties arose during the last two years of the War.

Until the fall of 1916 the people of Norway were able, therefore, to lead a life which—seen in comparison with conditions experienced by most of the peoples of Europe—must be called fairly carefree and untroubled. As prices rose it became, of course, more and more difficult for those who lived on fixed incomes to make both ends meet. But at the same time there were excellent opportunities to obtain well-paid work of almost every sort; there was little or no unemployment; and all who were directly connected with industrial life saw their incomes increasing. From a purely business point of view the country, in the course of the second year of the War, even

found itself enjoying exceptional prosperity. Hence it came that the Norwegian people in that period had only in small degree any feeling of solidarity with the nations which had to bear the sufferings and misfortunes of the War. They lived their own lives, and nearly all were largely taken up with purely home affairs. It is typical of the situation that no former or later Storthing passed so many important laws as the Parliament of 1915, although not all the reforms agreed upon were immediately put into force.

As matters developed it was only natural that satisfaction at the way in which the Government and leaders had acted was general throughout the country. The elections of 1915 were also a marked victory for the Government, which was put in a position to remain in power with a majority almost unaltered.

However, the picture of the situation gained by the public had colors far too bright. Those industries which enjoyed the greatest prosperity were precisely those that were exposed to special dangers. Thus the good times in the fishing industry in the spring of 1916 were only the result of a definite economic policy on the part of Great Britain which might at any time be changed. Simultaneously, both the commercial and the political pressure put upon the country by the belligerents was constantly growing, and the opportunist policy that had been followed by the Minister of Foreign Affairs made it difficult for Norway to protest against infringements and encroachments upon the principles of international law and established usage. But the Government tried fairly consistently to keep secret such struggles, either actual or threatening. The leaders in industry and trade were thereby tempted to make plans less prudent than they would have, had they been fully conversant with conditions. And when events in the last two years of the War gradually unmasked the dangers, sharp criticism was directed against the Government. But in appraising this criticism, it must not be forgotten that the economic policy of the first two years was based on the belief that the War would be only of short duration, and if peace had been declared in the autumn of 1916, or earlier, the War would have had hardly any serious effect on the country's economic development, and "the judgment of history" would have undoubtedly been favorable to the Government.

CHAPTER IV

THE FISH AGREEMENT OF AUGUST 5, 1916

The new negotiations bearing upon the relations between the British Government and the Norwegian fisheries were opened at Christiania on July 21, 1916. Great Britain was represented by two experts who had arrived from London especially for the purpose, Messrs. F. Leverton Harris and James Hope Simpson, by Mr. E. Ovey, then *Chargé d'Affaires* at Christiania, and by Mr. Mackay; and Norway was represented by Dr. Hjort and the Undersecretary of State for Foreign Affairs, Mr. Arne Scheel.

The British negotiators brought with them a "provisional scheme submitted as a basis for discussion." Section I of the scheme began thus:

> In view of the great and growing feeling of discontent in Great Britain regarding the export of fish and fish products from Norway to Germany, export only rendered possible by supplies derived from or controlled by Great Britain, His Majesty's Government may be compelled to stop all supplies of stores, coal, or oil for fishermen's requirements unless an arrangement satisfactory to His Majesty's Government can be arrived at.

The scheme contained the following major proposals: There was to be formed a Fish Merchants' Association, approved by the Norwegian Government, with the duty "of providing sufficient fish for Norway's internal consumption." . . . "All Norwegian fish and fish products not required for internal consumption" were to be sold by the Association "to His Majesty's Government or to any person or corporation nominated and guaranteed by it." And licenses for export were to be given only "to the Fish Merchants' Association or to its representatives."

It was naturally out of the question for the Norwegian negotiators to accept these proposals. They called for an arrangement that would give Great Britain complete command of the Norwegian fish market, and the demand that export licenses should be given only in one direction contained an inadmissible challenge to the Central Powers. Mr. Scheel, therefore, put forward a Norwegian counter proposal. The plan for the Fish Merchants' Association was ac-

cepted. But its chief business was to be the buying of the necessary raw materials for the fishermen, under the same conditions as were prescribed in the ordinary "branch agreements." Licenses for export were to be granted to Great Britain for such fish as were taken with the use of British supplies and to any other country for fish taken with supplies from that country. The Fish Merchants' Association, or another association formed especially for this purpose, was to sell definite quantities to a British institution at fixed prices.

The British negotiators rejected this proposal, fearing that it would be impossible to control such a system. They now suggested that no exceptions whatsoever should be given: anyone could buy what he desired, but the whole catch must be stored in Norway until after the War.

This arrangement met with decided disapproval.

The third proposal of the British negotiators was merely to make a branch agreement for the Norwegian import of raw materials, combined with the Norwegian proposal for the granting of export licenses, but without any obligation upon the British Government to buy.

There is no doubt that this arrangement would have given the best possible position to Norway as regards her neutrality and her commercial independence. However, it went against the ideas of Dr. Hjort. He had made it his aim to bring about the continuance of the British purchases. He feared that if they were not renewed the whole fishing population would sink into poverty and distress. It is most probable that he exaggerated the helplessness of the fishermen, but, on the other hand, it would naturally mean a great benefit to the fishing districts if they could keep the new British market during the remainder of the War. But, as negotiator, Dr. Hjort was the representative not only of Norwegian fishermen but of his country; and he ought to have remembered that it is always dangerous to lose sight of political relations and think "along purely economic lines."

The standpoint of Dr. Hjort was advocated so brilliantly for the Norwegian Government that it resolved to make a far-reaching compromise in order to obtain the renewal of the British purchases. On the initiative of the Premier, Mr. Knudsen, the proposal was made to combine the Branch Agreement with the British obligation to buy at fixed prices, and simultaneously to give Norway the right by

treaty to export a certain percentage of her fish catch to Germany. This amendment was accepted by the British negotiators, and the percentage for free export was fixed at 15, the Norwegians having first proposed 25 and the British 10⅛.

When the parties had thus found a solution of the chief difficulty, the remaining negotiations were hurried on, and on August 5 the so-called "Fish Agreement" between Great Britain and Norway was concluded. It played such a dominating part in the development of Norwegian war economics that we shall give its chief clauses.

The Agreement commences with the following provisions:

1. The Royal Norwegian Government will forthwith prohibit the export from Norway of all fish, fish oil and other fish products (except canned fish).
2. Immediately after the signing of this Agreement an inventory shall be made of all fish, fish oil and fish products and stocks in Norway, and shall be checked by the proper authorities.

Clause 2 provided, furthermore, that exporting might be permitted from old stocks if it could be effected without any violation of a given guarantee. The prohibition of exports was, according to Clause 3, to be continued until the end of the year.

The British obligation to buy was stipulated in Clause 4, as follows:

> His Britannic Majesty's Government or their nominees will be prepared to purchase all fish, fish oil and other fish products not required for home consumption in Norway at prices to be immediately arranged with the representatives of the fishing industries. Such prices shall remain in force during the War.

According to Clause 5, however, "His Britannic Majesty's Government on giving four weeks' notice may cease to purchase" any fish products.

In Clause 6 the British Government bound itself to grant licenses for export to facilitate Norwegian imports of coal, oil, and other requirements of the fisheries.

In Clause 11 the Agreement was made "conditional upon sufficient credits being arranged in Norway."

The rules governing free export were given in Clauses 12 and 13. It was prescribed that exemptions should "be limited to quantities not exceeding 15 per cent of the actual catch." Very strict rules

were laid down to make certain that no export should take place under this clause in violation of given guarantees. Thus licenses should "not be granted unless and until declarations have been lodged by the exporter with the Ministry . . . that the curer or manufacturer, as the case might be, guaranteed that in the curing or preparation of fish or the manufacturing of the products, no raw materials obtained from Great Britain, or the import of which was controlled by Great Britain, were employed." Even from the fishermen he had bought from he had to procure like guarantees.

According to Clause 14 the Norwegian Government was to "fix maximum prices for the various classes of fish, fish oils and fish products which are dealt with in this Agreement," and "these prices should not be higher than the prices arranged" for the British purchases. This price arrangement should, according to the Agreement itself, be made "by His Britannic Majesty's Government with the representatives of the fishing industry." However, it proved to be impossible within a few days, to improvise a branch association of fish merchants. Therefore, an additional agreement concerning prices was made between Dr. Hjort and Mr. Leverton Harris.

Quite apart from what might be said about the Agreement as a whole, it contained details which proved to be most unfortunate from a Norwegian standpoint.

First, prices for British purchases were fixed in kroner and öre for the whole remaining period, notwithstanding any future alterations in the price level. It sounds quite incredible that such a provision was made at that time, for in August, 1916, the great war inflation of all prices was already an acknowledged fact, and every prediction was to the effect that a continuous upward tendency in the price level would be inevitable. Should, however, the prices of raw materials continue to rise, while the prices brought by the catch were, by agreement, bound to remain on a level which was reasonable in the fall of 1916, a discrepancy between costs and selling prices must soon be the result, throwing the fisheries into a serious crisis of a wholly artificial character. Dr. Hjort has defended the price clauses by saying that fixed prices were absolutely conditional for British purchasing. However, it cannot be seen from the documents that any proposal deviating from those clauses was made by the Norwegian negotiators.

Second, the price arrangement was, in another respect, of a most

unfavorable character. According to Clause 14 the maximum prices fixed by the Norwegian Government were not to be higher than the prices arranged for the British purchases. This meant an identity between the prices which the producer could obtain by selling to the British agents and the maximum prices merchants could obtain by selling to the Norwegian public. Under these circumstances Norwegian business men in fishery lines had no motive for any longer carrying on their businesses; they could not make any profit, nor even get their costs covered.

When the Norwegian negotiators had accepted this clause they had acted in the belief that the British would sell back a considerable part of the fish they were obliged to buy, and that these great quantities could be had at very low prices. The British negotiators had suggested their willingness to accept a clause in the Fish Agreement by which Great Britain would sell back what was wanted for Norway's internal consumption at 50 per cent of maximum prices. The Norwegian negotiators had, however, rejected the plan, fearing that such an arrangement would put Norway under an obligation to Great Britain. They hoped, however, that even after this rejection the British willingness to sell at low prices would hold good. It did. But, as it proved, the British agents neither offered the quantity necessary for home consumption in Norway nor offered the products at the prices that had been hoped for. This was only natural. When the British had not assumed any obligation to sell certain quantities at fixed prices, it was in their interest not to spoil the Norwegian market by offering too much or being too reasonable in their prices. The result, however, was that Norway, notwithstanding her possession of some of the greatest fisheries in the world, had more and more difficulty as the War continued, in procuring the necessary fish supplies for her own population. At last the State was called upon once more, and the authorities began again to subsidize the consumption of fish products, thus adopting anew a policy in contradiction to all economic laws.

Third, the guarantee demanded from exporters included such rigid rules that they were impossible to practice to the letter. After a series of new negotiations during the fall, the British Legation at Christiania was at last forced to accept a somewhat free Norwegian interpretation of these guarantees.

Fourth, the provisions concerning the calculation of the 15 per

cent granting free export were vague and dubious. Regarding this clause also new negotiations became necessary, and here again the Norwegian standpoint was ultimately accepted.

These controversial details, however, represented only the minor part of the series of difficulties for the economic policy of Norway, which cropped up in connection with the Fish Agreement.

Throughout the whole of the second half of 1916 the British accused the Norwegian authorities of not having kept to the Agreement in a loyal manner. The British grievances were mentioned in a note of September 25 from Minister Findlay to Mr. Ihlen, and were constantly repeated later on.

What had most annoyed the British, and been the reason for most of the accusations, was the fact that from August 18 to October 31, 1916, 121,393 hl. of salted fat herrings had been exported to Germany. Dr. Hjort had, as a matter of fact, during the negotiations early in August, assured Mr. Leverton Harris that there were only small stocks of herrings in the country. The British Legation, therefore, maintained that these herrings partly or wholly emanated from a new catch and had been smuggled into the old stocks.

The Norwegian inventory on August 18 had certainly been taken at short notice, and had to be accomplished before there was time to arrange new administrative machinery. It had, therefore, not been possible to carry out an entirely effective control along the far-stretching Norwegian coast, which from end to end has an extent of about 3,400 kilometers, and when bays and inlets are included, about 20,000 kilometers. Thus it was impossible to prove that the British accusations were false. The Norwegians were obliged to content themselves by pointing out that the catch of fat herrings in the beginning of August, 1916, had been an exceptionally good one, that the old stocks of herrings, as the quality in many cases had not been specified during the inventory, might have comprised fat herrings in quantity, and, finally, that renewed investigations had revealed only a few cases of wrong statements. The British Legation, however, lent a willing ear to the most fantastic tales of how the Norwegian controllers had been deceived. Hence the negotiations between the British Legation and the Norwegian authorities throughout the fall of 1916 went on in irritable fashion; and no understanding had been reached when other circumstances resulted in an acute conflict between the two countries.

The Fish Agreement itself had been kept secret. The Norwegians who were not particularly scrupulous in observing export rules thus had no idea of the difficulties they had brought upon their country. Not even the subordinate authorities were informed of the situation.

This secrecy was entirely against the wishes of Dr. Hjort. Throughout the negotiations he had all the time been under the impression that the Agreement[1] would be published. The proposals which he, as Director for Fisheries, had put before the Government were all based on the understanding that there would be complete publicity. When the Minister for Foreign Affairs, Mr. Ihlen, on August 7 informed Dr. Hjort that the Government had decided upon secrecy, he at once asked to be released from his position. But as his retirement a few days after he, on Norway's behalf, had closed so important an agreement with a foreign power, would have appeared rather strange, the Government induced him to agree to an arrangement by which his retirement should, provisionally, take the form of a leave of absence. This leave was granted him on August 11.

Dr. Hjort states that just before this he had a visit from a German emissary, Mr. Paul Rehbein, who tried to ascertain what had taken place. Mr. Rehbein, according to Dr. Hjort's report, said to him: "I am conversant with the whole affair, and know that Norway has entered into an agreement with England. It is not the fact that this has been done for the sake of the Norwegian fisheries which embitters us. We understand quite well that that was unavoidable. But that it has been kept secret from us we can never forget."

Meantime the Food Minister, Mr. Oddmund Vik, demanded that the Minister for Foreign Affairs before making public the export prohibition should inform the German Minister of the consequences which the Fish Agreement would have for the export of Norwegian fish to Germany. The Government agreed with Mr. Vik, and on August 17 Mr. Ihlen had a conversation with the German Minister concerning this. According to a brief note in the archives of the Foreign Ministry he told him that "next day an export prohibition covering various fish products would be issued, but it would not affect the present stocks, and that exemptions would be made for certain quantities of the future catch; also that the prohibition had been

[1] The Norwegian edition of this volume is the first publication that has given to the Norwegian a full account of the actual facts in connection with the Fish Agreement.

brought about in order to obtain the necessary raw materials and fishing outfits from England."

Germany did not, however, consider this satisfactory. On September 21 the Norwegian Minister in Berlin, Mr. von Ditten, telegraphed that Mr. Rehbein, on returning from Christiania, had stated that he had not succeeded in getting sufficient information. Mr. von Ditten added that the feeling against Norway was strong, and that retaliatory measures might be expected at any moment.

It is easily understood that the Norwegian Government had its misgivings as to furnishing the German Government with official advice regarding the details of the Fish Agreement when, all the while, no understanding had been arrived at with the British authorities concerning the points which were decisive for a maintenance of the Norwegian fish export to Germany in the limited form the Agreement provided for. It is very probable that German feelings would have become even more intense if the details had been learned sooner.

It is, however, quite certain that the Germans with their partial knowledge of the Agreement became greatly incensed against Norway; and the German Government seemed to have decided immediately to take action against her at the first suitable opportunity.

It did not have to wait long. On October 13 there was published the Norwegian Royal Ordinance on the subject of submarines.

CHAPTER V

THE SEQUEL OF THE FISH AGREEMENT: THE U-BOAT CONFLICT WITH GERMANY

Late in September, 1914, German submarines tried to stop the trade between Norway and Archangel, and, indeed, all traffic along the northerly Norwegian coast. From September 26 to October 4 eleven Norwegian vessels totaling 14,539 gross tons, and with an insured value of about kr. 11,000,000, were sunk in these waters. The loss to the Norwegian War Insurance Association amounted to more than kr. 10,000,000.

Several vessels were torpedoed just outside of harbor waters on the north coast of Norway. The crews had to leave the ships in the bitterly cold autumn weather and row mile after mile in open boats before reaching land; and their sufferings were terrible. Four of the crew of the *Ravn*, which was torpedoed off the Murmansk coast, died from exhaustion and cold in the open sea.

These sinkings naturally caused tremendous bitterness in Norway. A strong campaign against Germany was opened in the press. One newspaper after the other demanded that the Government should close Norwegian waters to submarines; and, as a matter of fact, it was highly probable that the U-boats which had done the sinkings in the Arctic Ocean had reached it through Norwegian territorial waters.

The rules and customs of international law, established before the days of submarine warfare, permitted the war vessels of belligerent powers to navigate neutral waters, and even conditionally to put in to neutral ports. For, in such cases the vessel can be seen. But the U-boat can escape observation by diving. It was, therefore, only natural that the question of special rules for the admission of U-boats to neutral waters was raised several times during the War. On November 29, 1915, a Swedish ordinance had forbidden the admission of submarines belonging to any of the belligerent powers to indisputable Swedish territorial waters, except in cases of severe weather or on account of casualties, when the submarine was to remain on the surface and fly its national flag. On August 22, 1916, the neutral governments received identical memoranda from the

governments of France, Great Britain, Russia, and Japan, in which they were enjoined "to take efficacious measures tending to prevent belligerent submarines regardless of their use, from availing themselves of neutral waters, roadsteads or harbors." The Norwegian Government had for a long time considered that there was no sufficient reason to alter the old regulations, but after the losses in the Arctic Ocean it issued the following Royal Ordinance, dated October 13, 1916:

1. Submarines equipped for use in war and belonging to a belligerent power, may not be navigated or remain in Norwegian territorial waters. Breach of this prohibition will render such vessels liable to attack by armed force without previous warning.

This prohibition shall not prevent submarines from seeking Norwegian territorial waters on account of stress of weather or damage, in order to save human life. When within territorial waters the vessel shall be kept on the surface and shall fly her national flag and also the international signal indicating the reason of her presence. As soon as the reasons justifying the arrival of the vessel are no longer existent she shall depart from territorial waters.

Other submarines than those mentioned are also prohibited from navigating or remaining in Norwegian territorial waters, unless by daylight in clear weather, and in surface condition with their national flag displayed.

Foreign submarines which navigate Norwegian waters must themselves, on account of the difficulty of distinguishing between the different kinds of submarines, take the risk of damage or destruction, caused through doubt as to the character of the vessel.

2. This ordinance shall come into force on October 20, 1916.

The Norwegian Ordinance went even further than the Swedish, inasmuch as it allowed entrance to Norwegian waters only when the mission of the submarine was to save human life. Both this circumstance and the discussions which went on in the Norwegian press gave the German Government the impression that it here had an opportunity to take the desired action against Norway because of the Fish Agreement.

No time was lost. In the course of a few days the whole German press was mobilized. And on October 20 the German Minister at Christiania, Mr. J. Michahelles, handed a note to the Norwegian Minister for Foreign Affairs, declaring that the Norwegian Ordi-

nance was not neutral inasmuch as it was directed solely against Germany and had been issued at the instigation of England. The note concluded with the following words:

> By order of my Government, I, therefore, hereby beg to lodge a positive protest against the Royal Ordinance of October 12 of this year, and express a decided expectation that the Royal Government will on renewed consideration withdraw this Ordinance.

It has been said of this note that only on one point did it differ from an ultimatum, inasmuch as no fixed time was stated for the receiving of the reply. But this circumstance Mr. Ihlen made full use of. He did not make any hurried decision. He consulted the leading Norwegian statesmen and diplomats, as well as the governments of Sweden and Denmark, as to their views of the situation. He again resorted to the policy of postponement.

While the Norwegian answer was being considered, it was, however, the general opinion within European diplomatic circles that the situation was critical. The possibility of Norway being drawn into the War was also freely discussed in the world's press; and the Allied military authorities considered the measures which would have to be taken in order to protect Norway against a sudden German attack.

The German note dealt with a single question only; viz, the Norwegian Submarine Ordinance. But there is the old saying, "pretending one thing and meaning quite another," and there is every reason to believe that this was true of this German action against Norway. Naturally the Germans felt themselves injured by the Submarine Ordinance. But for the motivation of their policy this did not mean so much. The German U-boats had not been in the habit of navigating Norwegian territorial waters in surface condition; and, when submerged, they could enter the forbidden waters without paying any attention to the Norwegian guard ships. What interested the Germans in connection with Norway was quite another matter. The Fish Agreement of August 5 had already aggravated the food situation in Germany, and the fear was nourished that the British Government might, later on, be able to manipulate this mysterious Agreement in such a manner that Norwegian exports of fish to Germany would be completely stopped. In these facts we undoubtedly perceive the deeper reasons for her action.

Germany did not, indeed, wait long before raising the fish question. The day after the delivery of the German note Mr. Scheel, of the Foreign Ministry, received a private letter in extremely amiable terms from the German Commercial Attaché, Dr. Büsing, inquiring how the Fish Agreement between Norway and England should really be interpreted. A query in this letter regarding the mode of calculating the 15 per cent begins, "It is of importance that we be informed"; and the letter concludes with a request for a reply the same day. The time limit which was omitted in the note concerning the Submarine Ordinance was thus included in the semi-private letter about the Fish Agreement.

On October 18, five days after the issuing of the Submarine Ordinance and two days before the presentation of the German note, conferences between the German Legation and the Norwegian Foreign Ministry took place to discuss the question of an eventual trade agreement between the two countries. The negotiations were not in any way broken off after the German note of October 20. On the contrary, it appears that they were accelerated. Germany was represented by Dr. Büsing and in part by an emissary from the German banks, Dr. Warburg. Mr. Scheel attended on behalf of Norway; and after each meeting he wrote a detailed report, which is to be found in the archives of the Foreign Ministry. From these reports it appears that the conferences were all carried on in an exceptionally friendly and, at the same time, pertinent manner; and from Mr. Scheel's notes nothing transpires to the effect that the negotiations were between countries which, according to general opinion, were on the verge of war.

The Germans almost immediately put forward the draft of an agreement, according to which Norway was to grant a number of commercial concessions to Germany. The presentation of this proposal simultaneously with the diplomatic action on the submarine question seemed to prove it was in the purely economic field that the Germans were most seriously in earnest. From the viewpoint of home politics this undoubtedly was a relief to the Norwegian Government; for the concession of some commercial advantages to Germany could hardly be considered as a national humiliation. With regard to the foreign policy of the country, the position was quite the opposite. The Submarine Ordinance had, as a matter of fact, not been issued in submission to the Allied note of August 22, but was a spontaneous

manifestation of Norwegian resentment at the sinkings in the Arctic Ocean. No power could, therefore, complain if Norway made a marked withdrawal in the submarine controversy itself. In commercial respects, Norway, on the contrary, was by no means free. The stipulations in the Fish Agreement were such that it would be almost impossible to give Germany any facilities for obtaining her fish without first expressly obtaining the consent of Great Britain, and in some of the communications to the British Legation concerning the branch agreements the Government had taken upon itself certain obligations with regard to other export prohibitions.

Under these circumstances the Norwegian Government found it advisable to make a proposal for a trade agreement with Germany, offering all the commercial facilities it considered it possible to grant. This proposal was solemnly presented to Dr. Büsing on October 26. It must be said of it that it did not offer any facilities to better Germany's commercial position.

But Norway pledged herself, so far as possible, to maintain the *status quo;* and according to Norwegian opinion Germany would be well served by a maintenance of commercial relations as they were. The statistics proved, as a matter of fact, that the business relations between Norway and Germany in the war years had so developed that Germany had become the greater importer. While Norway had, in 1913, imported from Germany to the amount of kr. 176,000,000, her exports to Germany amounted only to kr. 67,000,000. The value of imports from Germany in the first six months of 1916 was kr. 85,000,000, against an export value to Germany of kr. 154,000,000.

Nevertheless, the Norwegian proposal for a commercial agreement met at first with complete silence in Germany; and the Government in Christiania soon understood that it would not bring any solution of the conflict. On the contrary, it became clear that the situation had been aggravated, and it began to be known to steadily widening circles in Norway that the crisis had entered a critical phase. Feelings became excited. Every day the newspapers contained new and bitter articles against Germany, and nearly every day the German submarines provided them with new reason for them; for just at that time a great number of Norwegian ships were the victims of their torpedoes and shells. The day after the delivery of the German note no less than nine Norwegian vessels were sunk.

From October 20 to November 1, when for a few days there was a cessation of such incidents, German submarines destroyed thirty-three Norwegian mercantile ships of a total gross tonnage of 40,185; and the loss to the Krigsforsikringen on these vessels was kr. 25,-815,000. Three of the torpedoings took place in the Arctic Ocean. It was a fairly general opinion in Norway that the German submarines at that time sought out Norwegian ships in particular. Many began to think that war was unavoidable. Not a few business men acted on this supposition. A large number of house owners and tenants in Christiania insured themselves in foreign companies against bombardment from the air.

The Norwegian Government, however, wanted to preserve peace, and in its efforts was loyally and effectively supported by Stockholm and Copenhagen. It lay in the political position of the three countries that the Swedish remonstrances were made in Berlin; while the Danish Government also tried to influence London, emphasizing its feeling that Norway ought to be allowed to give Germany commercial concessions, notwithstanding the Fish Agreement and the branch agreements.

It was, however, not only in Denmark and Sweden that Norway's involvement in the War was not desired. When it came to the issue it proved that neither the British nor the French Government was keen on having another small country drawn into the War on their side; they apparently calculated that the military obligations which would be laid upon them would be greater than the benefits. The Allied governments, therefore, made it clearly known that they would prefer to see the Norwegian-German conflict solved in peace.

But the Norwegian Government was not disposed to alter its attitude. On November 8 it delivered a reply to the German note of October 20, which contained nothing about the German claims but merely gave a long and very carefully composed explanation of the motives for the issue of the Submarine Ordinance. Germany immediately declared that this reply was unsatisfactory. But—and here we have the characteristic feature—the Norwegian Minister in Berlin was privately informed that the German Government, before taking any further steps, would study the Norwegian proposal of a commercial agreement more closely.

At the same time Germany expressed the wish to change the basis of calculation for the amount of Norway's free fish exports to her,

which in the Fish Agreement was put at 15 per cent of "the actual catch." Owing to the impossibility of computing the catch in advance the Germans could never know what amount of equipment and raw materials it would be useful for them to sell to Norway. They suggested that the percentage should be calculated on the basis of the average catch during the last five years. This was in line with Norwegian interests, because reliable statistics for "the actual catch" could not be procured at the time when the distribution for export was to be made. The Norwegian Government dealt with this matter in a most businesslike manner. It at once informed the British Government that it intended to consider the five years' average as the basis. The British made no protest against this.

In the meantime negotiations regarding a commercial agreement with Germany had been renewed at Christiania on November 17. But many difficulties cropped up and Germany then made it known that the Norwegians would have to do at least something with regard to the Submarine Ordinance. The result of this was that on December 2 the following secret instructions for the Norwegian Navy were issued:

> The Royal Ordinance of October 13, 1916, shall be understood to the effect that submarines belonging to belligerent powers are permitted to enter Norwegian territorial waters when it is necessary on account of stress of weather, or damage, or to save human life.

It was further arranged that the German banks should immediately obtain a loan of kr. 7,500,000. And in the way herein described the crisis between Germany and Norway was gradually negotiated away without its being possible to name any exact date as the turning point.

About the middle of January, 1917, it seemed, however, to be quite clear to both parties that the making of a commercial agreement would mean a lengthy continuation of the negotiations. They then agreed that the acute conflict should be ended by two measures. In the first place a temporary commercial arrangement should be made, pending a final agreement at a later juncture. In the second place the Submarine Ordinance should be altered in accordance with the instructions given on December 2.

The temporary commercial agreement was arrived at on January 23, 1917, in an exchange of letters between Messrs. Büsing and

Scheel. Its chief contents were the following: Both Germany and Norway declared that they would mutually exchange goods according to their abilities, but with regard to their own requirements. Norway also added the reservation "that she could permit export only to the extent in which she was not bound by agreements already existing with other countries." Germany pledged herself to give immediate export license for machinery ordered by Norway and already manufactured,—though with certain specified reservations. Norway pledged herself not to issue, up to March 1, 1917, export prohibitions on nickel, molybdenum, carbide of calcium, ferrosilicon, calcium nitrates, and tinned fish. All in all the agreement was in accordance with the Norwegian proposal of October 26, 1916.

The amendment of the Submarine Ordinance followed on January 30. The fundamental prohibition against belligerent submarines making use of Norwegian territorial waters was maintained. But a modification was introduced in the paragraph covering permitted access to Norwegian territorial waters; the second "or" was now openly inserted in the final phrase "on account of stress of weather or damage or to save human life," thus giving publicity to the new interpretation given in the secret instructions of December 2.

The revised wording had already been accepted by the Germans; and on February 9, 1917, Mr. Michahelles stated that the German Government now "waived any further discussion of the Norwegian arguments and considered the incident as closed."

The ultimate settlement of the conflict was a complete mystery to the public. There was no discoverable connection between the severe threats made by the Germans on October 20 and their later placable attitude. On October 20 they demanded that the Submarine Ordinance should immediately be withdrawn. At the end of January they contented themselves with an alteration, which principally consisted in the word "or" being inserted in a not too well worded sentence. Only a perusal of all the documents in the archives gives the explanation. It proves that here we have before us one of the instances in political developments where there is need for "the economic interpretation of history." It seems, as a matter of fact, unmistakably to appear from the documents that what the Germans actually were aiming at was the assurance of getting at least a fixed minimum quantity of Norwegian fish, and a guarantee that the Norwegians

on renewed pressure from England, would not issue export prohibitions on certain goods which the Germans needed, partly as civilian food supplies and partly for war purposes. Even though the temporary agreement of January 23, 1917, contained significant reservations on Norway's behalf, the German Government considered that, at all events, it had obtained some kind of commercial guarantee. Thereafter the Submarine Ordinance played a minor part. It could be looked upon as a closed incident, although in reality, a change of only very little importance had been made.

But in the light of the connection which thus has been made clear, it proved that the conflict with Germany over the Submarine Ordinance really makes a chapter in the economic history of Norway during the World War.

CHAPTER VI

THE COPPER AGREEMENT AND THE CONFLICT WITH GREAT BRITAIN

Norway exports as well as imports copper. It exports cupreous pyrites and imports electrolytic copper. The total Norwegian production in 1913 amounted to 420,000 tons of cupreous pyrites, containing more than 1 per cent copper; in addition to which there was produced 80,000 tons of so-called "non-cupreous pyrites," an ore containing less than 1 per cent of copper. The greater part of this was exported. If the export to Holland and Belgium is held to have been ultimately destined for Germany, that country received, in 1913, about 114,000 tons. The mines suffered manifold difficulties in 1914, but in 1915 had a very good year. The total production came to 465,000 tons of cupreous and 65,000 of non-cupreous pyrites, and prices were continually rising. Exports to Germany, calculated as above, amounted to 210,000 tons. The prospects for the next year were thus looked upon as bright and promising. But the hopes of the mine owners were not to be fulfilled. In February, 1915, the miners went on strike; the strike gradually developed into a general conflict which seemed to threaten the country's whole industrial life. A compulsory arbitration law was enacted; but the mine owners maintained that the wages fixed by the court of arbitration were too high considering the prices. In addition to this, when the mines were reopened after the strike it developed that the whole situation had changed.

This was due to the conditions of import then ruling. In the late fall of 1915 the British Government, principally by the help of a branch agreement with the leading American copper exporters, had succeeded in getting the whole of the American copper export under British control. The agreement had not been published, and among the Norwegian importers it caused great astonishment when a large number of them in December, 1915, were advised that their American orders could not be filled. Most of the refusals were due to the fact that the orders had been placed with American firms not included in the agreement. The Norwegian Minister in London immediately remonstrated, but met with the reply that Norway could not

expect any favor as the British greatly disapproved of the Norwegian export of copper to Germany.

Great Britain also took positive steps to induce the Norwegian Government to impose a prohibition upon copper exports. On April 7, 1916, the British Minister at Christiania, Sir Mansfeldt de C. Findlay, sent a communication to the Norwegian Minister for Foreign Affairs regarding the copper question. It was accompanied by a memorandum upon "a proposed arrangement for the exchange of Norwegian copper and copper-containing substances for the refined and manufactured copper which Norway desires to import from overseas." The memorandum consisted of ten points. The first contained a demand that the export of copper and "copper-containing products" should be prohibited by the Norwegian Government, "except in exchange for copper, manufactured or refined, containing the same weight of copper as the material exported." Denmark and Sweden were, however, to get their usual quantities without exchange. A minimum quantity of 10,000 tons of copper was also to be allotted for export to Great Britain. The accompanying letter was written in a strain which appeared very strange in a diplomatic document. Thus it contained the following passage:

> I wish to point out that, as far as my Government is aware, no other neutral state is exporting to the enemies of Great Britain material for the manufacture of munitions of war, and is at the same time expecting Great Britain to facilitate the importation of the same material. It is practically certain that the copper exported from Norway is used for the manufacture of the shells which day after day are causing the death and disablement of the soldiers of Great Britain and her allies. It is even probable that copper dug in Norwegian mines is part of the material used in the construction of the submarines by which so many Norwegian ships have been destroyed "with due consideration for the rights of neutrals," and not a few Norwegian sailors killed and wounded. The inflated price of Norwegian copper is in fact, the price of blood,—the blood of the friendly people to whom Norway would necessarily look for assistance in time of need, and on whom she depends, not only for the continuance of her present prosperity and independence, but for her existence as one of the foremost sea-faring nations of the world.

Mr. Ihlen replied on April 13. He stated that he would revert to the copper question later on but, at once, wished to point out that the British Government never had maintained "that a neutral state

should pledge itself to forbid its citizens to sell to the belligerents products which would be of use to them, a conception which, besides, if acted on by Norway, would mean that not alone exports for the enemies of England, but also the present export to England of a number of products important for the War would have to be stopped." Mr. Ihlen also stated that the Norwegian Government alone was able to decide the question of what measures it should take toward the German submarines, and concluded by saying that Norway did not feel herself especially dependent on any country.

It was no doubt because of these sharp exchanges of opinion that no verbal negotiations regarding the copper question took place that summer, as was the case with the other outstanding matters between Great Britain and Norway, but that the discussions continued in formal notes. However, in June, matters had gone so far that Mr. Ihlen considered it advisable to get in touch with the mine owners and secure their assistance. Conferences took place in Christiania, at which the mines producing pyrites containing more than 1 per cent of copper formed an "Association for the Export of Norwegian Cupreous Pyrites," with the object of arranging a compensating agreement; this association was also to issue all licenses to trade with neutral markets.

In the meantime the Foreign Ministry, in coöperation with experts, had drafted a proposal for an agreement regarding the exchange of copper. It was sent in Norwegian to the British Legation, and began with a declaration that the Norwegian Government was willing, on certain conditions, to impose export prohibitions on "*kobber, kobbermalm, kobberholdig svovlkis, kobberholdig kisavbrand.*" The British Legation replied in a proposal which translated the Norwegian text as "copper, copper ore, pyrites containing copper, purple ore containing copper." The translation was not adequate. *Kobberholdig svovlkis* in Norwegian means "cupreous pyrites," i.e., pyrites containing more than 1 per cent of copper, while the English expression "pyrites containing copper," according to the wording, may be understood also to include "non-cupreous pyrites," seeing that very small quantities of copper are to be found in all Norwegian pyrites. The amplified translation could hardly have been adopted purposely. And the expression "purple ore containing copper" was a wrong translation of a Norwegian technical word, as purple ore contains no copper; probably the translation

had been done with the help of an ordinary dictionary. The Foreign Ministry, however, did not show the English text to any expert, the mistakes in the translation were not discovered, and on August 30 a formal agreement between the two governments was concluded—the "Copper Agreement"—on the base of the English translation, while the export prohibition agreed upon was imposed on September 1, giving the products the names mentioned in the original Norwegian text.

The main points of the Agreement were the following:

The Norwegian Government declared that the export prohibitions were issued "on the understanding that dispensations will be granted for export to belligerent countries on condition that Norway receives within 60 days from the date of export from or through the medium of such countries copper goods or goods containing copper with equivalent contents of copper, less 5 per cent for wastage on account of refinement and manufacture." Notwithstanding this prohibition Sweden, Denmark, and Holland were to receive for home use a quantity not exceeding the amount which, in recent years, they had imported for home use. On condition that it did not interfere with military exigencies the British Government, in return, was to allow an importation into Norway of up to 8,000 tons per year of copper and copper-containing products for home use, in exchange for exported Norwegian copper and copper materials. In consideration of the fact that the importation from America to Norway of copper had been stopped for several months, and the mine strike had caused a falling off in Norwegian production, the British Government would not object to the importation into Norway—immediately after the issuing of the above-mentioned Norwegian prohibition of export—of copper and copper manufactures up to 3,000 tons, irrespective of the amount of copper-containing products which Norway at such time might be able to deliver in exchange. The Norwegian equivalent goods were to be delivered at a price agreed upon by the Norwegian exporter and the British importer. The exchange was to take place ton for ton. For every ton of Norwegian pyrites shipped to Holland and consigned to the Netherlands Oversea Trust the British Government would allow free passage from Rotterdam to Norway of one ton of iron or steel, provided that this iron or steel material could not be obtained from Great Britain. In consideration of the British Government's grant-

ing, as soon as possible, license or shipping facilities for up to 3,000 tons of copper, the Norwegian Government gave the British Government a first call on any stock of pyrites or any pyrites which might be produced in Norway, until the amount of copper required for exchange in return for the above-mentioned 3,000 tons had been exported to Great Britain in the form of pyrites. This last clause, in the later exchange of notes, was generally termed "the Assurance."

On September 8 a circular was sent to the customs authorities freeing from export prohibition ore or pyrites containing less than ½ per cent of copper content. This occasioned a sharp verbal note from the British Legation, dated September 21, 1916. Here it was stated that the British Legation had been instructed to inform the Norwegian Ministry for Foreign Affairs that His Britannic Majesty's Government regarded the issue of this circular as a distinct breach, not only of the letter but also of the spirit of the Copper Agreement.

The Norwegian Ministry for Foreign Affairs replied on September 29, explaining the Norwegian interpretation of the Agreement. It was especially emphasized that the Copper Agreement was an arrangement for the exchange of copper, inasmuch as the copper content in the exports specified was to be used as an equivalent for the copper Norway was to receive. But the copper content in noncupreous pyrites was so small that it would be of no importance as compensation. It could, therefore, not be intended that the Agreement should include that class of pyrites. When the Norwegian Government had fixed the limit as low as ½ per cent it was "beyond all doubt" that it was "on the safe side."

The British, however, persisted in their standpoint. As a matter of fact, it had meanwhile developed that the discrepancy between the two understandings of the Agreement signified an important reality, in so far as the British began to discover that the Germans, for their war purposes, could make use not only of the Norwegian copper but also, and perhaps in a still greater degree, of the Norwegian sulphur. Besides, rumors were afloat that the Germans had discovered methods which made it possible also to extract the copper from pyrites very poor in copper. Now the wording of the English text was such that the British understood that they could demand the stoppage of all exports of pyrites; and as they simultaneously halted the dispatch of the 3,000 tons of electrolytic copper, the Nor-

wegians, after the note of September 21, had a choice between extending the prohibition or abandoning the Agreement.

In an after-consideration it would seem that the latter procedure would have been the better one. But on October 11 the Norwegian Government had decided to give way and hand to the British Legation a proposal for a decision as to the extending of the prohibition of export. This proposal was accepted and came into effect on October 30.

Even now the British were not satisfied. They also demanded the right to close a definite contract for the purchase of pyrites which would counterbalance the immediate Norwegian import of 3,000 tons. They permitted Norway's keenest competitors on the pyrites market, the Rio Tinto Company, to act as buyers, offering comparatively very low prices. The Norwegian sellers wanted to refuse; but Mr. Ihlen threw all his influence into the scale and, by making a very strong appeal to their national feelings, induced them to accept. Late in October the contract was signed. When it had been in force for some time the Norwegian mines were losing considerably on every ton of pyrites delivered.

Prior to the closing of the contract between "the Association of Pyrites Exporters" and the Rio Tinto Company, a number of verbal conferences had taken place between Mr. Ihlen and Minister Findlay. The conversations were carried on in French. In a later correspondence between the two gentlemen there appear contradictory statements about what had been said. It is not improbable that linguistic misunderstandings also had something to do with this second misconception. At any rate, Mr. Ihlen had understood Sir Mansfeldt to the effect that, provided he secured for the British the Rio Tinto contract—which obviously could not be demanded on the basis of the Copper Agreement—this contract should take the place of that "first call" in the Assurance. Had not Mr. Ihlen understood Sir Mansfeldt thus, he would not have had any motive for bringing about the contract. Minister Findlay, on the other hand, denies having withdrawn the British claim for "first call." Whatever may have been said between the two gentlemen, Mr. Ihlen, at all events, must be blamed for not having confirmed in writing his assumptions for arranging the Rio Tinto contract. As some excuse for him it may be mentioned that the decisive conferences on this subject took place just in the days when the submarine conflict with

Germany was at its height, and probably was the most important topic of conversation during the meetings between him and Minister Findlay.

In the meantime the Norwegian Foreign Ministry, maintaining that the Rio Tinto contract had been substituted for the British "first call," found itself entitled to give dispensations from the export prohibitions to belligerent countries when compensation was given for the copper content. Hence they allowed the export of pyrites from the Stordö Mines to Germany. As these pyrites were mostly non-cupreous it was only a question of very small quantities of refined copper in exchange. The British Legation, however, very soon came to know of this, and in communications of November 16 and 24 lodged very sharp protests against the export licenses to the Stordö Mines, as being quite contrary to the Assurance.

By this protest Mr. Ihlen was placed in a difficult position. He had assured the German Minister that exports from Stordö to Germany could be continued, and on November 7 Mr. Michahelles informed him that the equivalent quantity of copper had been furnished, and that Germany considered the copper question settled (*erledigt*). Sir Mansfeldt's complaint came just at the time when the German-Norwegian negotiations for a general commercial arrangement were well in progress, and Mr. Ihlen had reason to hope that the German threats of war would not be repeated. Should, however, the copper question suddenly be thrown upon the table, there was every reason to believe that Germany would break off the negotiations and that the danger of war would then be imminent. Mr. Ihlen, therefore, chose to let the exports from Stordö to Germany continue.

The British Government took this as a proof that the Norwegians had submitted to the German threats, and the Lloyd George Ministry, which had come to power on December 7, decided to tighten the bonds on Norway. On December 18 Lord Robert Cecil, who was then acting as Minister for Foreign Affairs, sent two memoranda to the Norwegian Minister in London, Mr. Benjamin Vogt, concerning the asserted breaches of the Fish Agreement and the Copper Assurance. When Mr. Vogt emphasized the difficult position of Norway Lord Robert replied: "Here it is a question of two agreements, and they must be fulfilled."

In order to procure better statistical material for a reply to the

British allegations regarding the Fish Agreement the Norwegian Food Ministry on December 22, 1916, called for a "new inventory of the fish products which were in stock on August 18, 1916." Proof that a recounting had been done was made a condition for export licenses.

On the day the reinventorying was ordered the director of the Food Board, Mr. Pedersen, sent a letter to the British Minister in regard to a number of licenses for the export of coal from Great Britain. It concerned matters which usually were arranged without discussion. But this time he received the following reply, dated December 23, 1916:

> I am in receipt of your letter of yesterday's date, and in reply thereto beg to inform you that I am unable at present to recommend any such applications in view of instructions from my Government that such recommendations, except in certain cases, are to be suspended until certain questions which have a bearing on the execution of our agreements respecting fish and pyrites have been satisfactorily settled.

The Norwegian Ministry for Foreign Affairs, on the other hand, did not receive any intimation from the British Legation of the stoppage of coal exports to Norway.

Right up to the time when this prohibition was imposed the deliveries of coal from Great Britain to Norway had been running about normally. The annual imports of coal had, during the years 1914, 1915, and 1916, been around 2,500,000 tons; and imports of coke and cinders had increased from 260,000 tons in 1914 to 365,000 tons in 1916. Nearly all coal imports and over two-thirds of all coke and cinder imports came from Great Britain. It had, however, not been possible to accumulate large stocks. A check-up of the stocks of fuel in the country on January 31, 1917, at 12 o'clock midnight, showed 701,835 tons of coal, 105,118 tons of coke, and 28,332 tons of cinders, besides 51,552 cubic meters of peat, and 427,054 cords of wood. These figures included coal stocks possessed by the State Railways, which on January 1, 1917, amounted to 116,000 tons. As the normal consumption of coal was estimated at about 250,000 tons per month, the said coal stocks, as of January 31, would meet almost three months' normal consumption. By narrow restrictions and using wood to the greatest possible extent they could naturally be made to last somewhat longer. But not in all

cases could wood be substituted. Of the estimated yearly consumption only 270,000 tons were for household use, while the industrial consumption worked out at 1,250,000 tons, and bunker coal at 672,000 tons. In any circumstances, the British coal prohibition, therefore, meant a serious threat to Norwegian production and trade.

Meanwhile, on January 3, 1917, the Government had sent detailed telegraphic replies to the British notes concerning the Fish and the Copper Agreements, giving elaborate explanations of the Norwegian standpoint. About the Copper Agreement it was maintained that Norway had fully fulfilled her duty under the Assurance, as the above mentioned Association of Pyrite Exporters, with the consent of both governments, had taken over "responsibility for the contribution incumbent on Norway." In order to illustrate how profitable this contract was to the Rio Tinto Company it was stated that 21,000 tons of Norwegian pyrites bought by Rio Tinto at kr. 860,000 had immediately been sold in Denmark at kr. 2,160,000. The Government also insisted on its interpretation of the expression "pyrites containing copper," and added that the Rio Tinto contract itself afforded excellent corroboration of the Norwegian view, stipulating that copper contained in pyrites should not be paid for if the percentage of copper was less than 1 per cent.

On January 12, 1917, the British Government replied in a detailed note which covered more than six typewritten pages in folio.

Where it was a question of the Fish Agreement it submitted a lengthy argument pointing to certain statistical data and interpreting them in a way intending to invalidate the probability of the Norwegian explanations. However, this statement concluded with the following remarks:

> The Norwegian Government will readily understand that these disclosures have very seriously disturbed His Majesty's Government. . . . But nevertheless as the Norwegian Government have declared their readiness to redress the injury which has been done to British interests . . . and to provide against a recurrence of abuses, His Majesty's Government will be prepared on this understanding to regard this incident as closed.

Turning to the copper question the note stated that the pyrites sent to Germany had not first been offered to Great Britain, irre-

spective of Norway not yet having supplied the equivalent amount of pyrites for the 3,000 tons of copper. This was contrary to the Assurance in the Copper Agreement. The question of the designations used for the cupreous copper did not affect this issue since the words used in the Assurance were "any pyrites," the qualification "containing copper" here being expressly omitted. In referring to this dispute in the note of January 12 the correct British technical terms "cupreous or non-cupreous pyrites" were used. It was further stated that "the explanations offered by the Norwegian Government left the British Government in no doubt that the action taken by the Norwegian authorities was due to a genuine misapprehension of the real purport and scope of the obligations undertaken on their behalf," and that the British Government was "far from imputing to them any intentional disregard of these obligations." If, therefore, the export of pyrites to Germany was stopped until the equivalent for 3,000 tons of copper had been exported to Great Britain, the British Government was willing to consider this "as settling the present controversy." The British Government, on their part, would then be ready to abandon the "exceptional restrictions which had recently been placed on the export of coal to Norway."

The note also hinted at a number of minor controversies. About them negotiations were opened at Christiania, and solutions were soon found in most cases. In the case of the copper question itself, the Norwegian Government tried to make a compromise, which Minister Vogt, in a telegram of January 24, was instructed to suggest to the British Foreign Office, and which was formally forwarded in a note of February 1. It stated that the Government, in principle, would accept the British conception of the "first call," provided Great Britain on its part would make no objection, as an exception to the general rule, to the export of 40,000 tons of pyrites annually to Germany. It was mentioned that this quantity would be procured exclusively from the Stordö Mines, where production was being carried on with the help of German supplies.

On February 9, however, Minister Vogt had to cable that the Norwegian proposal would be rejected, a fact which already, in January, he had given warning of. Neither would arbitration be accepted. On the other hand, the British Government might be willing to lay the copper controversy before two jurists, one British and one Norwegian. If they were in agreement the loser should give way.

If they did not agree no harm would be done. On the following day the official British reply was delivered. It was written in a very strained tone. In substance it covered the communication submitted by Minister Vogt.

By that time the international situation had changed. The Germans had begun their unrestricted submarine warfare. It would, then, be the sheerest folly to maintain the conflict with Great Britain. A Norwegian withdrawal in the case of the Copper Agreement was essential. Mr. Ihlen hesitated no longer. On February 10 he visited the German Minister and informed him that the Norwegian Government, on account of the coal situation, was compelled to consider a complete stoppage of the export of pyrites to Germany. According to the records in the archives of the Foreign Ministry there was no comment by the German Minister.

On February 14 Mr. Ihlen then wired to Minister Vogt that the Norwegian Government was willing to stop the export of pyrites to Germany on condition that the prohibition on coal be immediately lifted. The Government accepted the proposal for a juristic decision, interpreting it to the effect that the export of pyrites to Germany could begin again in the event of the decision being in favor of Norway.

The following day Mr. Ihlen informed the German Government that the Norwegian Government was willing, as compensation for the suspended exports, to grant Germany further money loans and to give export permits for large quantities of hides and skins.

Looking back upon the policy followed by Mr. Ihlen in the copper controversy it is not difficult to perceive his line of action. His object was to keep the question in dispute with Great Britain pending as long as the U-boat conflict with Germany was in being. He was undoubtedly aware that sooner or later he would be obliged to yield to the British demand for the stoppage of the export of pyrites to Germany. But he would not give way to Great Britain until he had negotiated the commercial agreement with Germany and had been convinced that the threats in connection with the Submarine Ordinance had been finally removed. He also succeeded in having the commercial agreement with Germany, of January 24, worded in such a way that it would be difficult for the Germans to raise any formal objection to a later suspension of the export of pyrites when it was based on the Copper Agreement. The day after, Mr. Ihlen

started to give ground in the case of Great Britain, requesting Minister Vogt to sound the prospects for a final compromise. Then, when the proposed alteration in the Submarine Ordinance had been accepted by Germany, and unrestricted submarine warfare had begun, the time had arrived when he considered it possible to give way with a good conscience.

On February 17, 1917, the British prohibition on the export of coal was abolished.

CHAPTER VII

NORWEGIAN SHIPPING AND THE SUBMARINE WAR

In the post-war period we have become accustomed to attack the problem of the enormous rise in prices during the World War solely from the monetary angle. We point to inflation, and investigate the correlation between the increase in the circulation of paper money in various countries and the rise in their price levels. We record the obvious interdependence between these two sets of developments, and feel convinced that in this manner we have found the full explanation of the phenomenon. Hence we have almost forgotten that one of the chief origins of the abnormal price movements in war-time is to be found in the events on the only market which is wholly international: the freight market. Here a number of causes coöperated to bring about a tremendous rise in charges even before the appearance of the new paper money: the driving of Germany from the high seas, the starting of the great transport of troops and munitions, the fear of mines and U-boats with the subsequent rise in insurance premiums, and the monopolizing of the berths in the shipbuilding yards of the belligerents by their naval authorities. The venerable law of demand and supply would have been completely wrong if all these circumstances had not driven freight rates upward. But the effects did not fail to appear. Early in the fall of 1914 they were quite conspicuous, and the rise in freights continued incessantly during more than 18 months. While the rate for monthly time-charter in January, 1914, varied between 3 shillings and 4/6d for the more ordinary routes, in the fall of 1915 it had risen to 18 shillings—and by the end of the year to 27. In May, 1916, the rate on coal between the Tyne and Havre was 33, and between South Wales and Rouen 41 per ton. Two years before, the freights paid in the same trade were about one-tenth of the figures above.

For two reasons the tremendous rise in freights was especially felt in Norway. First, Norway imports a comparatively large percentage of her necessaries, so that the imported goods weigh heavily in fixing the Norwegian price level. The rise in freights, therefore, meant that much greater demands were made on the commercial banks, which were obliged considerably to extend their grants of

credit in order to finance the normal imports. If the inflation had not been gradual this extension of credit could hardly have taken place without a simultaneous contraction of the loans to Norwegian industries, a circumstance which at that time might have had unfortunate consequences. This fact is invariably overlooked by those who refuse even to understand how the inflation could have arisen.

Second, population for population, Norway has the largest mercantile fleet in the world. In 1914 it amounted to 1.031 tons per inhabitant, while the British mercantile fleet was .412 tons and the American .053. Also, Norway must in an absolute sense, be reckoned as a great power on the seas. According to Lloyd's Register for 1914 the country had a mercantile fleet of 2,559,000 gross tons and stood next after Great Britain, Germany, and the United States. For this reason alone high freight rates meant more to Norway than to any other country in the world. But, in addition to this, the disposition of the Norwegian mercantile fleet was especially favorable for profiting by such high rates. Norway's tonnage at the outbreak of the War was engaged principally in tramp traffic. A goodly number of ships were, it is true, time-chartered for lengthy periods, but the old charter parties were gradually expiring, and the ships were becoming available for new engagements.

One of the specialties of Norwegian shipowners was the carrying of coal from Great Britain to France. Illustrative of the rôle the Norwegian ships here played is a statement made by the President of the British Board of Trade, Mr. Runciman, in the House of Commons. He pointed out that in January and February, 1916, the following ships loaded coal at Cardiff: 3 Japanese, 4 Uruguayan, 4 Portuguese, 9 Russian, 11 Dutch, 14 Belgian, 21 Danish, 36 Swedish, 40 Greek, 45 Italian, 61 Spanish, 120 British, 124 French, and 242 Norwegian. According to the *Morgenbladet* of June 4, 1916, there were at that time about 150 Norwegian ships in the regular coal trade between Great Britain and France; they totaled approximately 150,000 gross tons, and represented an insurance value of some kr. 100,000,000, as calculated by the standards of Norwegian war insurance.

The Norwegian owners had, naturally, greatly increased their rates, and they did not think there was any possibility of a reaction so long as the War lasted. They felt quite sure that there could be no possibility of enforcing a system of maximum rates in the inter-

national freight market. They, therefore, took very little notice of the agitation started by the Chamber of Commerce at Cardiff in January, 1916, which had as its aim the demand that the Government should refuse neutral ships bunker coal unless they held to maximum rates to be fixed by the British authorities. To them, therefore, it came like a bolt from the blue when the *Times* on May 13, 1916, announced that an agreement had been made between the British and French governments covering maximum rates in the coal trade, and that neutral ships would have to accept them if they wanted bunker coal. Officially the maximum rates were published on May 25, 1916. In comparison with current freights the new figures meant a very considerable reduction,—between the East Coast and Channel ports, for instance, from 33 shillings to 25/6d per ton and between South Wales and Rouen from 41 to 27/6d.

The Norwegian owners preferred, to a great extent, to lay up their ships rather than give way. The Norwegian Vice-Consul in Cardiff reported on July 14 that "only a small number of Norwegian ships had agreed to the maximum rates."

In the meantime the Norges Rederforbund, the "Norwegian Shipowners' Association," had sent a delegation to London to approach the British authorities regarding their attitude toward maximum rates. The delegation consisted of the shipowners Messrs. Thos. Fearnley, Jr., and Westfal Larsen, and director W. Klaveness. They succeeded in making an arrangement on a time-charter basis for the Norwegian ships, which meant an addition to the fixed maximum freights. The Norwegian coal boats thus obtained somewhat better conditions than those fixed by the Ordinance of May 25. But the unlimited rise of freights in the coal trade had come to an end. Here again the War made it clear that power is also to be considered as one of the fundamental factors in the economic sphere.

Even before the agitation for maximum freights in the coal trade had resulted in anything, a British declaration, already made, put another unexpected restriction on neutral shipping. It stipulated that after April 25, 1916, ships lying in British ports should not be allowed to bunker unless return freights to Great Britain were guaranteed. Now to arrange for return freights at short notice was no easy task under the war conditions governing telegraphs and mails then prevailing. The effect of this condition was, therefore, that one ship after another was subjected to compulsory delays in British

ports. Danish owners then offered to allow their vessels to do an extra voyage with coal between Great Britain and France instead of giving a guarantee for return freight. In the course of May, 1916, this system was introduced; later it was continually made use of. Owners who did not want to let their ships undertake a so-called "obligatory voyage" had to keep a keen look-out to secure suitable return freight. The Norwegian exporters availed themselves of this, and the result was that the out-going rates from Norway were held down while the homeward rates rose still further.

The developments on the freight market in the second half of 1916 were, on the whole, peculiar. Not a few rates were on the decline. Within many shipping circles the current opinion was that the peak of the freight market had already been passed.

In the fall of 1916 submarine attacks, however, again became more frequent, and the Norwegian mercantile marine in that half year suffered severe losses. Toward the end of 1916 it became evident that the Germans now had a much larger number of submarines than before. Hence it was only to be expected that the submarine war soon would create a scarcity of tonnage which, in spite of all counter measures, would force freights up to unheard of heights. Rumors were also afloat in December, 1916, that the Germans were preparing to wage intensified submarine warfare in some form or other. In telegrams of December 14, 1916, and January 19, 1917, the Norwegian Minister in Berlin, Mr. von Ditten, indicated that new and far-reaching measures might be expected.

But even those who were most prepared received a shock on the publishing of the German note of January 31, which instituted the so-called "unrestricted submarine warfare" by declaring that every ship in the seas adjacent to Great Britain, France, and Italy, would be attacked "with all weapons."

Mr. Ihlen at once asked the German Minister if it was the intention that vessels coming within the closed areas should be sunk without warning, to which Mr. Michahelles replied: "One must be prepared for that. Every vessel coming within the blockaded area is looked upon as hostile, and there exists, then, no obligation to give warning."

Identical notes of protest were forwarded to Germany and Austria on February 13 by the three northern powers.

The openly expressed object of the German declaration was not

only to strike at Great Britain but also at neutral trade, which under the circumstances was principally of benefit to the enemies of Germany; and the Germans had, no doubt, hoped that the threats of January 31 would completely paralyze the courage of both Norwegian shipowners and sailors. But our sea-faring people took it very coolly. They expressed the opinion that the Germans had made the forbidden areas so extensive that it would be impossible for them to make the blockade effective.

The companies which had liners running on fixed routes had, however, every reason for anxiety. The Bergenske Dampskibsselskap decided, on February 1, to suspend sailings between Bergen and Newcastle which, since the beginning of the War, had been the quickest and safest route for passengers and mail between Russia and Great Britain. To suspend passenger and freight sailings between Norway and the United States, on the other hand, was out of the question. Den Norske Amerikalinje, therefore, requested their agent in London immediately to make urgent applications to the British authorities, in any case, to exempt their passenger steamers, from having to call at Kirkwall for visit and search. As an alternative port of call the company suggested Halifax in Canada. But on February 4 the British Government gave notice that it was still necessary to call at Kirkwall. The company then held its large passenger steamer, the *Kristianiafjord*, in Bergen.

The owners of tramp steamers were in another position. They had no passengers to think about. Their captains and crews were already growing accustomed to submarine dangers. To them only the losses suffered by their mutual insurance company, the Krigsforsikringen, really counted. Hence they were inclined to let their ships sail, notwithstanding the new dangers. The board of directors of the Krigsforsikringen took the same view and decided, temporarily, not to raise their premiums. Minister Findlay, therefore, found himself called upon, on February 3, to address a letter to the Norwegian Minister for Foreign Affairs, expressing his appreciation of the "calm and dignified attitude" taken by the Krigsforsikringen and similar institutions.

The British Government was, however, afraid that the Norwegian owners would draw back if the losses became too large. On February 3 the Minister of Blockade, Lord Robert Cecil, suggested to Minister Vogt that his Government might be willing to purchase the

greater part of the Norwegian tonnage. Commander Fisher stipulated somewhat later that such purchases must be made on the assumption that the Norwegian owners retained the right to repurchase ships still available after the War. He suggested a price of £30 per ton.

If, moreover, these appoaches were not made to the abovementioned Shipowners' Association, but to the Norwegian Minister in London, the reason was that such purchases had to be sanctioned by the Norwegian Government. In order to safeguard the mercantile fleet the Government had, namely, on December 3, 1915, enacted an Emergency Law making the sale of vessels to foreign countries conditional upon government approval, and this had been repeated in a law of July 21, 1916.

There were strong arguments to induce the Norwegian Government to accept Lord Robert's suggestion. As a matter of fact, events had proved that the percentage of losses during the submarine warfare was lower on armed than on unarmed mercantile vessels. Should the German blockade become more effective it seemed to be both in British and Norwegian interests to transfer vessels to the British flag, so that they were no longer defenseless. If the transfer did not take place it was, besides, not improbable that the British would make use of their right of angaria to requisition Norwegian ships.

On the other hand, Norway, through the sale of large quantities of tonnage would be yielding up her most powerful resources and her most valuable object of compensation. The Norwegian shipowners and sailors would be put out of the game. The Norwegian flag would disappear from the seas. In return the Norwegian shipowners and shareholders would receive money or claims to receive money. But no one knew what such claims would later be worth. Neither was it possible to know how valid the right of repurchase would prove to be.

In addition there were the political considerations of the moment. Should a large part of the mercantile fleet be sold to Great Britain this might easily be looked upon by Germany as an unneutral act. If it were carried through, Norway risked, in the first place, giving up her mercantile ships to have them armed and, in that way, become implicated in the War herself; she would then have the right to arm her own ships, but at a time when the right had lost its value, for they would no longer be sailing under the Norwegian flag.

The plan for the sale of tonnage was strongly opposed by the outstanding shipowner Mr. Johan Ludwig Mowinckel, who at that time was President of the Storthing. The matter was discussed at a meeting between the Government and the Committee for Foreign Affairs of the Storthing. After that meeting Mr. Ihlen cabled to Minister Vogt that the Government would not make any concessions concerning the suggested sale of ships and even preferred British requisitions to extensive sales.

The British plans for purchases on a large scale became known in Germany. On February 9 the German Minister stated to Mr. Ihlen that if a large sale of Norwegian ships to Germany's enemies took place,—for instance, if vessels were sold by the dozen,—Germany would consider this an unneutral act.

However, the purchase plans were soon abandoned by Great Britain, for it was not long until trading between Norway and England was again in full swing. Between February 18 and March 8 fifty-three ships sailed from Norway to Great Britain. By March 16 a corresponding number had arrived. Later in March, trade became even more active. After the establishing of Halifax as the port of visit and search for the Atlantic routes trade between Norway and America also got under way again.

But the spring of 1917 was a black one for Norwegian ships. The total of sinkings as given by Mr. J. A. Salter in his treatise in this series was 590,545 tons in March. The Norwegian loss in that month was 106,111 tons. For the sake of comparison it may be mentioned that in the same month France lost only 40,836 tons and the United States 20,886. The month of April was not much better for Norway; her loss was then 102,312 tons. The percentage showing in April was, however, not so unfavorable, the total loss for all countries being 866,610 tons, the record for a single month.

For the Norwegian War Insurance Company, the Krigsforsikringen, these two months meant something like catastrophe. At the close of the year 1916 the finances of this institution about balanced. At the end of March, 1917, it had a deficit of kr. 90,000,000, and on April 28 of 118,000,000. The losses were greatest in the North Sea and in business which was not reinsured. By March 17 the Krigsforsikringen found it necessary to make application to the Ministry of Commerce for an amendment to the law, whereby the board of the institution might, if necessary, be allowed to claim from their policy

holders payments on account sufficient to cover the whole of the existing deficit. This was granted by a law of May 14.

Also for the Varekrig Company the unlimited U-boat campaign meant great and serious disturbances. This company had a surplus on December 31, 1916. Since February, 1916, it had been allowed to place insurance up to kr. 1,600,000 per ship. For the State this would be equivalent to a maximum of kr. 640,000; and, in addition, the State had otherwise covered a part of its own risks by reinsurance. After the beginning of unrestricted submarine warfare the Varekrig Company received notices of withdrawal from a number of its reinsurers. But the managing director, Mr. Erik Farup, did not lose his courage. He decided to attempt a partial reorganization on quite a new basis. He divided the risks to be reinsured into a certain number of shares. Then he called on the different import and export houses and asked them to subscribe. He succeeded in getting 700 shareholders, who took over 40 per cent in all. Then he obtained legal permission to increase the maximum insurance per ship to kr. 5,000,000. After this reorganization the Varekrig was again in a position to meet the demand for war insurance for both import and export goods.

It was, however, not only in the insurance world that the tremendous losses of the Norwegian mercantile marine in March, 1917, caused alarm. Anxiety over the future of the U-boat campaign seized the whole population. Ever increasing circles called for the arming of all Norwegian merchantmen.

Feeling in the country became still more agitated as news came of more torpedoings that had meant loss of life. On March 1 the *Gurre* of Bergen was torpedoed near the Shetland Islands. Twenty men perished. The following day the sailing ship *Hermes* of Lillesand and the steamer *Edvard Grieg* of Bergen were sunk in the North Sea, twenty-seven lives being lost. On March 10 the collier *Algol* of Bergen was sunk, also in the North Sea, with a loss of eighteen lives.

The Government, which still sought to keep the country out of war, was daily placed in a more difficult position. Then, on the initiative of Mr. Gunnar Knudsen, negotiations were entered into with the British Legation at Christiania with the purpose of finding a means of protecting Norwegian merchant ships without abandoning neutrality. The negotiators soon fixed their attention on the idea of

an exchange of tonnage. The British Government had, of course, use for ships in all waters, even in places where the danger from the German U-boats was comparatively insignificant. It would, then, be advantageous to both parties if Norway's unarmed ships were sent to these distant waters, and the North Sea traffic, in return, was taken over by armed British vessels.

The more detailed negotiations for the working out of this plan were left by the Norwegian Government to the Norges Rederforbund and the Director of the Food Board, Mr. Pedersen. This meant a return to the same procedure which had been followed in the negotiation of the branch agreements. The Government did not want to open up all these intricate questions of international law, which might be connected with an agreement of this nature, if the Norwegian Government were a party to it: and experiences gained from the Fish and Copper Agreements did not seem to make it advisable for the Government itself to conclude agreements with Great Britain.

It developed, however, that neither the Government nor the National Assembly could be kept quite out of the affair. In reality, a new law was required to procure a legal basis for the arrangement. The matter was dealt with in the Storthing, behind closed doors, on June 5; and on June 12 the royal sanction was given to the "Law Prohibiting the Chartering of Norwegian Vessels in Certain Cases." The law was worded thus:

Section 1. The King, or whomsoever he authorizes, may prohibit the concluding or renewal of freight contracts for Norwegian ships.

2. Each future agreement securing the right for the charterer to renew a charter party or close a new charter is null and void.

3. The King, or whomsoever he authorizes, shall make the provisions for the carrying out of this law, also provisions for the eventual notification of concluded and prospective freight contracts or renewals of such.

4. A breach of this law or of provisions made in conformity with this law, shall be punished by fines up to kr. 500,000 or by imprisonment up to 6 months, or by both.

5. This law comes into force immediately.

By Royal Ordinance of the same day the Norges Rederforbund was deputed to exercise the power of decisions prescribed in the

law. The acting owners of ships under Norwegian registry were instructed to give the Norges Rederforbund definite and cabled notice of each prospective freight contract or renewal, with the exception of charters between Norwegian ports or from foreign ports to Norway. The notice to be given was fixed at seventy-two hours. It was further prescribed: that "the Norges Rederforbund should, within the time at its disposal, prohibit the closing or renewal of freight contracts, where this might seem advisable."

The transference of Norwegian ships to the British flag was carried out according to the following principles:

The requisitions did not affect ships which were necessary for Norwegian supplies, or which were especially built for the trade they were engaged in, or which maintained or were destined for regular services. First of all, the Norwegian ships in the North Sea traffic were requisitioned; they were exchanged for English vessels, ship for ship. The individual shipowners also had leave to time-charter their vessels to the agents of the British Government, Messrs. Furness, Withy & Co., if they preferred to do so. Before the transfer to Britain an inspection was made by a Norwegian and a British surveyor. The officers and crew were to have the option of remaining with the ship; but in the case of a number of vessels the Norwegian crew preferred to leave, in most cases because of discontent with the lower British wages. The insurance was covered in England. For the requisitioned ships freight was fixed at 35 shillings per ton, free of duty and expenses, with 10 extra for special ships. The Norges Rederforbund demanded that small vessels should receive an addition to the above rates. This was also granted. For the ships which were time-chartered to Messrs. Furness, Withy & Co., the rates were fixed according to the dead-weight tonnage. Ships under 500 tons D.W. received 58 shillings per month; ships between 500 and 1,000 tons D.W. 54; ships between 4,000 and 6,000 tons 43/6d; and ships over 6,000, 41/6d. War insurance premiums were covered by the charterer.

The above arrangement was not set down in any formal contract. It was arrived at through letters exchanged between the British Legation and the Rederforbund. This was, undoubtedly, to avoid delay, inasmuch as both parties feared that the formulation of certain clauses might mean lengthy negotiations. In reality, the new

arrangement was put into effect gradually and even before all points had been settled.

It is very difficult to find any characteristics which, in a satisfactory way, illustrate the nature of the Tonnage Agreement. It was concluded between the Rederforbund on the one hand, and the British Government, through the Legation in Christiania, on the other. It might even be called a branch agreement because in some respects it was similar to these curious private treaties. But the Rederforbund was in a somewhat different position from the importers' organizations, in so far as they made contracts with the British Government saying how they should administer an authority laid upon them by Norwegian law, and inasmuch as the agreement formed a part of a wider arrangement between the two governments. Hence the Norwegian Government considered itself quite bound by the Tonnage Agreement, even though it was not formally a party to it.

From an economic point of view the Tonnage Agreement, to a certain extent, can be paralleled by the collective bargains that are made by employers and employees. The Norges Rederforbund, as a matter of fact, made a contract with the British Government covering economic conditions and the compensation members should obtain for their contributions. Only it was not a case of hired work but of hired tonnage. The Rederforbund had no power to force its members to accept the offered terms. The British Government, on the other hand, had such power. They had control of the coal and they could also avail themselves of the right of angaria to requisition ships in cases where shipowners refused. The only course which seemed to be open to owners who would not accept the arrangement was to lay up their ships in Norway. However, this possibility the British Government had been alive to during the negotiations. It had, therefore, obtained a private promise from the Norwegian Government that this emergency exit should be closed, and so it was. In Section 2 of the law of July 18, 1917, it was resolved that the King, or anyone authorized by him, should have the power to forbid Norwegian shipowners to lay up their ships or to allow them to remain laid up.

From the viewpoint of national economy the great benefit to Norway by the Tonnage Agreement was that the ships were requisitioned not as property but merely for use. When the War was over they were to be restored to their Norwegian owners in the same con-

dition as when they were taken over. British and Norwegian surveyors were jointly to inspect them when redelivered to the Norwegian flag. In a number of cases even a formal requisition was avoided, the transfer to a foreign flag being effected by the closing of a quite ordinary time-charter contract. It may safely be said that of the various trade agreements which were made during the War the Tonnage Agreement was the one which was most to the benefit of the national interests of Norway.

The Tonnage Agreement, however, had a German sequel. In an ordinance issued by General Headquarters on April 24, 1918, it was, namely, prescribed that a neutral ship should be looked upon as being engaged in enemy war transport if the country to which the ship belonged had closed a contract with an enemy country for a contribution of tonnage or had the greater part of its mercantile marine in enemy service. And, in view of the Tonnage Agreement, it must be said that Norwegian ships came under this head. The decision of April 24, 1918, was in line with a previous German ordinance of July 16, 1917, which said that German war vessels could halt ships chartered for enemy account or serving enemy interest.

This new intensification of submarine warfare against Norwegian merchant vessels had the same psychological effect on Norwegian shipowners as the declaration of January 31, 1917. The owners of tramp steamers took the matter coolly. Line owners, on the contrary, became anxious, and on the initiative of Den Norske Amerikalinje the Rederforbund approached Berlin with the object of obtaining German letters of protection for Norwegian vessels not sailing in Allied interests. When this step was taken the German system of letters of protection was nearly six months old and was in practice in the case of other neutral countries, while up to May 10, 1918, no Norwegian owner had asked for such a safeguard.

The negotiations in Berlin resulted in an agreement between the Norges Rederforbund and the German Government; a declaration that the Norwegian Government was in agreement with it was inserted. The Rederforbund pledged itself to see that the 321,000 tons of shipping not employed in Allied interests should not, later on, be used for the benefit of the *Entente*. These ships had the right to ask for German letters of protection. The form of the Norwegian obligation was rather far-reaching. In reality, however, Norway at that time was keenly interested in preventing more ships from being trans-

ferred to Allied traffic. The mercantile marine of Norway then possessed 135 ships, of 346,407 gross tons, which were trading in distant waters; 115, of 139,659 tons, exchanged for Allied tonnage in the North Sea trade; and 336, of 603,148 tons, otherwise in service for the Allies. Hence, it must be said that the Norwegian obligations, according to the new agreement, were quite as much in the interest of Norway as of Germany.

On the part of Great Britain no serious notice was taken of the agreement. Moreover, it was not to be of importance for any great length of time. On October 31, 1918, the German Government gave notice that neutral ships would not be sunk, and thereafter the Norwegian merchant marine suffered only a single loss, and that, presumably, through the explosion of a mine.

Simultaneously with the settlement of the Tonnage Agreement an arrangement was made between the British Government and the Director of the Food Board for the importation of coal into Norway. This "Coal Agreement" was also no matter of documents. It was considered as having been embodied in the correspondence which had been exchanged; and, in this case too, the agreement was put into practice before the terms had been finally settled. In the course of the summer of 1917 the coal trade between England and Norway was taken over by armed British vessels. This arrangement proved to be very effective for the coal supplies to Norway. But exorbitant freights had to be paid,—up to £12 per ton. The Norwegian coal supplies in 1917 thus cost over kr. 210,000,000 for about 1,000,000 tons, while a supply of about 2,500,000 tons in 1916 had cost less than kr. 150,000,000.

One of the principal advantages of the Coal Agreement was, however, that after August 1, 1917, only a few small Norwegian colliers were torpedoed.

Of the Norwegian ships which, on the basis of the Tonnage Agreement, were requisitioned by Great Britain, in all thirty-four, with a gross tonnage of about 50,000, were lost in the War. But if these losses were comparatively small this fact must not be attributed only to the greater safety bestowed on Norwegian vessels by the exchange of tonnage. After April, 1917, the sinkings, in general, decreased considerably. The decisive turning point was the adoption of the convoy system.

Even in the early days of the War the idea of convoying merchant

vessels had been discussed, but the British naval authorities had for a long time put it aside. They were, in part, afraid of a great catastrophe in the event of a convoy being attacked; and, in part, they were against any plan which tended to divide the navy's forces. From the end of 1916 onward, however, Norwegian ships carrying ammonium nitrate were convoyed across the North Sea; and in April, 1917, the situation was such that all objections to a trial of the convoy system had been silenced; for, at that time, the submarine represented the greatest danger to Great Britain. On April 23, 1917, Minister Vogt was informed that all ships to Norway would be convoyed. They were, preferably, to collect at Lerwick and sail from there.

Light cruisers and armed trawlers were largely used as patrol boats for the convoyed ships. At the beginning the convoy arrangements were not carried out very systematically. Norway complained vigorously about the Channel convoys. Here it happened time and again that the faster vessels outsailed the others. Thus a number of Norwegian and Greek ships were left behind, and so exposed to great danger. Later on, however, complete regulations for convoys were issued, which, printed in Norwegian, were given to the Norwegian captains, and convoy maneuvering was made a matter of drill and practice.

After the German blockade declaration of 1915, as we have previously said, all neutral ships had been marked as distinctly as possible; the name of the ship and the nationality were painted in huge letters on her sides, surrounded by the colors of the flag. Now all ships were painted to make them as invisible as possible; it was the time of camouflage.

Generally the convoy got through intact; and, while the system was in use, only one heavy casualty occurred. Early in the morning of October 17, 1917, a convoy consisting of twelve merchant vessels en route from Bergen to Lerwick was attacked by two German cruisers 112 miles west of the Marsten lighthouse. There were five Norwegian, two Danish, and two Swedish ships in the convoy. The German cruisers, which were not flying their national flag, and which were mistaken for British up to the very moment when they opened fire, quickly destroyed the patrol boats and then attacked the merchant vessels. The neutral ships, which following the visit and search regulations had stopped for inspection, were sunk. The

Germans went on firing even while the crews were getting into the lifeboats, and no attempt to save them was made. A British patrol boat, on the contrary, which had come up, carried out extensive rescue work in the very face of the German guns. The Norwegian Government, on this occasion, lodged an especially sharp note of protest.

The German U-boats adopted the tactics, in the case of convoys, of turning up quite near the coast when the ships were collecting, or—after a crossing—were dispersing. Toward the end of the War it happened, not infrequently, that they appeared just outside the Norwegian ports. In 1918, therefore, it became customary for cargo boats engaged in coastal traffic, if in open water, to be convoyed by Norwegian war vessels.

In the course of the convoy system the losses of the Norwegian mercantile marine decreased gradually. While in April, 1918, they had been 68 ships of 102,312 gross tons, the loss in the month of July had dropped to 28 ships of 47,079 tons. But when the losses began to be less, the fleet was also very much smaller. In 1917 and 1918 it fell to 610,000 tons. All in all, the loss suffered in the War amounted to 829 ships, totaling 1,239,283 tons. The total insurance was over kr. 903,000,000, the Krigsforsikringen's share being more than kr. 705,000,000. In addition, 30 ships, of 66,074 tons, had suffered damage. Finally, 67 ships, of 60,380 tons, had disappeared, while 22, totaling 17,747 tons, had been condemned. The war loss of Norway was 49.3 per cent of its tonnage in 1914. Italy alone lost about the same percentage, namely, 46.9. For France the figures were 39.2 per cent, and for Great Britain 37.6 per cent. In absolute figures Great Britain alone had a greater loss of tonnage than Norway, which, as a result of these losses, fell from the fourth place in world tonnage to the sixth.

Of Norwegian sailors, according to the Shipping Board's statistics, 1,162 perished by acts of war, while "a large number" were wounded in the course of attacks. And to these figures must, undoubtedly, be added the greater part of the crews who manned the 67 ships which disappeared, crews who represented a loss of another 943 men.

CHAPTER VIII

THE IMPORT PROBLEMS OF 1916-1918

When an organization ceases to produce for its own consumption only, and makes the transition to more complicated forms of economic life, it will generally gain a much richer supply of goods, but simultaneously become dependent on others. The maintenance of its economy in these complicated forms will, therefore, be conditioned on its possessing the power to obtain the necessary supplies. The function of money in the world's economy is that of affording such a power. Everyone who has money will, as a rule, be able to buy every kind of goods from abroad, so far as price conditions permit. Money is the incorporated general purchasing power.

The World War disclosed anew the old truth that this power of money is based upon customs that in perilous times count for very little. During the second year of the War money had, generally speaking, retained its international purchasing power. The question of imports was principally a price problem. But in the third year things gradually became different. Articles of import could no longer be bought with money alone. The control over important goods was used to secure other benefits than high prices. Money was still used as a means of payment, but its power to procure what was required had depreciated. The world was sliding back into a system of barter. People did not merely inquire about the ordinary purchasing power of gold, notes, or circulating credit, but first and foremost about the bartering or compensating power of each individual article. It became possible for a country to enjoy the most brilliant monetary position without being able to purchase the merest necessaries.

This strange fact which, viewed from the angle of economics, represented the most important of all phenomena during the World War, is now almost forgotten. Inflation cast a shadow over it. But inflation in the forms it gradually assumed could not have been possible without people first having discovered that money was of less value than they had thought, that it did not possess the greatest power in the world, and that the satisfying of wants depended, actually, upon the possession of goods, and not on gold or notes. This dis-

covery led to an underestimation of money, which formed the psychological background for many of the strange happenings in the inflation period. The confidence in money became simply more or less undermined. It was a peculiarity of 1917 and 1918 that people, both in private housekeeping and public administration, always asked what was needed, but seldom asked the cost.

The transition from the ordinary system of private international trade to this new war-made system of State bartering had as its consequence a huge concentration of commercial power in the hands of governments. They determined what quantities of goods the different trades could dispose of. By the aid of a complete system of export prohibitions, by dispensation allowances or refusals of licenses, they gained an entire mastery over international trade. During these developments it gradually became more and more natural to look upon all the commercial connections between two countries as a unit. On the United States entering the War in April, 1917, the possibilities of such a concentration were fully realized by the economic experts, and the Americans decided very soon to make use of their position as the chief exporter to the European markets in the commercial struggle. In the course of the late spring of 1917 they succeeded in centralizing the whole economic policy of the Allied and Associated Powers in Washington.

On July 15, 1917, a general American export prohibition was imposed, and the neutral countries in Europe were informed that they would be obliged to make general trade agreements with the United States.

When the Norwegian Government received this discouraging information the greater part of the most important Norwegian imports was governed by branch agreements. Attempts had previously been made to obtain a general commercial agreement with Great Britain; and Norwegian negotiators who had been sent to London had brought back with them a proposal for such an agreement, dated October 5, 1915. The chief points in it were certainly favorable to Norway, and it was, undoubtedly, a fatal mistake of Mr. Ihlen that he did not immediately accept the proposal. Instead he left it to be dealt with by industrial organizations and experts, and the Norwegian discussions of the details were even far from completion when the British Legation on December 27, 1915, informed

the Norwegian Foreign Ministry that the Government in London no longer had any interest in the matter.

Just because they had not the support of any general agreement the branch agreements became of very great importance. They also gave rise to continual Norwegian-British negotiations, because the British Government wished the Norwegian Government, in any case unofficially, to give its approval to these branch agreements. The Norwegian Government, on its part, consistently refused to acknowledge such agreements, which would give to England the right to interfere in Norwegian business conditions in an offensive way. The agreements which ultimately were acknowledged concerned the following associations: the Provision Merchants, the Automobile Club, the Canners, the Bicycle Importers, the Chocolate Manufacturers, the Grain and Flour Importers, including the Millers, the Importers of Feeding Stuffs, the Grocers, the Pulpmakers, the Cork Makers, the Candle Manufacturers, and the Match Manufacturers.

In nearly all branch agreements a maximum import was stipulated, calculated either per annum or in relation to a somewhat smaller time-unit, e.g., four months. In this way Norway, through these branch agreements, was put on rations. For the most important articles of consumption the fixed yearly quantities were the following: 450,000 tons of grain and flour—but not more than 200,000 tons of wheat and wheat flour; 60,000 tons of sugar; 14,500 tons of coffee; 180 tons of tea; and 12,000 tons of meat.

These branch agreements had, however, been made with Great Britain. When the United States entered the War the situation, therefore, was totally changed. Immediately the Norwegian Food Minister, Mr. Vik, suggested that the Government send the Director of the Food Board, Mr. Harald Pedersen, to the United States to try to obtain an approval of the branch agreements and to make new purchases of grain. The Government, however, treated the matter in a somewhat dilatory manner, and did not seem to understand that it was a question of acting quickly; thus, nothing came of Mr. Pedersen's journey. In the meantime new and alarming reports were continually coming from America of a stricter policy toward neutrals; and when the Government, in midsummer, at length decided to enter upon negotiations in Washington, the position had become such that they found it advisable to send over a strong dele-

gation. Dr. Fridtjof Nansen was placed at the head of this commission, in the capacity of "*Ministre Plénipotentiaire en Mission Spéciale.*" The delegation left on July 6, on the *Hellig Olav*, and arrived in Washington at the end of the month.

When they began their work in America they met, in all quarters, friendly feelings toward Norway. But at the same time they soon understood that there were small prospects of obtaining any immediate and satisfactory arrangement. The American authorities were still entirely busied in organizing and outfitting the enormous administrative apparatus necessary for controlling exports. Mr. Herbert Hoover had accepted the position of Food Administrator, and on July 24 he sent the various neutral ministers memoranda covering the general conditions for an understanding. Later on, however, the management of the question had been left in the hands of a special institution, the War Trade Board, with Mr. Vance C. McCormick as chairman. The officials of this institution had not yet had time to become fully conversant with the different questions, and had very mixed ideas as to the principles to work upon. While some of them showed sympathy for the difficult position of Norway, others stated that the supplies from the United States would have to be conditioned on a complete stoppage of the export of fish to Germany. Meeting these opinions Dr. Nansen pointed out that such an action on the part of Norway would mean the same thing as a declaration of war against Germany. On hearing this the Americans promised to go deeper into the question. At this point the negotiations stranded before they were actually under way.

Thus an entirely new question had been placed before the Norwegian Government: If no agreement could be arrived at with the United States, and the other Allied and Associated Powers then adopted the same attitude as America, how would Norway be able to manage?

The Director of the Food Board made an estimate at the end of August, 1917, of the supplies of grain, which indicated that new importations would have to be secured by February 1 if distress was to be avoided. This calculation seemed to forebode a gloomy prospect, but it was based on normal needs. How far the stocks could be eked out through restrictions in the consumption of bread and a reconstruction of the bill of fare, with a view to consuming more fish products, was a question not easy to determine. The American

negotiators, in the meantime, had emphasized the fact that the Norwegians would have to give a guarantee that everything possible would be done to limit consumption. At the end of August, 1917, Dr. Nansen cabled to Mr. Ihlen to say that the Norwegians must expect to get grain from America only if a complete rationing system was introduced; and he added: "The Commission unanimously advises that Norway should immediately begin to ration grain and flour."

The idea of rationing was not altogether a new one to the Norwegian State authorities. On the contrary, discussions had been going on for some time as to whether it would be essential or advisable to ration foodstuffs, and the introduction of a system of rations had been strongly advocated by the two political leaders, Mr. Hornsrud and Mr. Wefring. The Government was, however, of the opinion that the interest of the Allies would be centered upon Norway's *total* imports of grain and flour, and these had already been put very low in the branch agreement with Great Britain. The authorities, therefore, restricted themselves to making preparations for an introduction of a system of rationing at a later date.

This attitude was entirely justifiable in the spring of 1917. But it was maintained too long and caused great embarrassment to the Nansen Commission. In America they considered a sudden introduction of rations as a proof that a country was in distress. The fact that Sweden, as early as on December 19, 1916, had decided to ration flour, and make the amount per diem very small, was looked upon everywhere as a sign that the food supplies of that country were most insufficient. When it now became evident that the Norwegian Government hesitated at taking similar steps the inference was that the food situation in Norway was fairly good.

As the objections of the Americans upon this, as well as upon other points, made it clear to the Commission that the negotiations would take a long time, it tried to obtain licenses for certain quantities of goods. But on this point the Americans were very cautious. They feared that their granting licenses for certain consignments would make it easier for Norway to manage without any general agreement. Nearly all applications from the Commission were, therefore, rejected. However, it succeeded at last in obtaining licenses for some supplies of oil, petroleum, coffee, wheat flour, and after lengthy negotiations with Mr. Hoover, also for a quantity of grain. The lat-

ter was made possible by a kind of barter with the Committee for Belgian Relief. Of grain and flour, the licensed quantities in all amounted to 68,000 tons. Compared with a complete stoppage of all importation even that quantity represented a gain, though it meant only a brief postponement of the time of dearth that was ahead.

Meanwhile, in October, the net around Norway had been drawn tighter. The British Government gave notice of the termination of all branch agreements. It became clear that it was not only the supply of foodstuffs which was now threatened. That part of the country's industry which was dependent on raw materials from abroad was also in danger.

The Government worked out an estimate of the "absolutely necessary quantities of imports" which were required to keep up domestic production; and it was submitted to the American Commission on November 28. Its chief items were: iron and steel, 250,000 tons; copper, 7,000 tons; lead, 600 tons; tin, 500 tons; wool, 1,500 tons; raw cotton and cotton waste, 3,700 to 3,800 tons; cotton thread, about 2,000 tons; linen, 750 tons; hemp, 3,000 tons; jute, 1,100 to 1,200 tons; hides, 5,000 tons; tanning extracts, 7,000 tons; electrode carbon and carbon electrodes, 4,000.

As winter drew near the situation began to arouse anxiety, not only in better informed circles, but also among the general public. The fact that the Government had kept secret so many difficulties increased the tension. People had not been prepared. They had grown accustomed to a certain degree of carelessness, and only in small part had they realized how exposed was the position of the country. When its difficulties were now made plain the attitude toward the Government changed, and its ministers were severely criticized for not having stated the facts clearly and earlier.

Under these circumstances the Government found it advisable to have the whole situation discussed with open doors in the National Assembly. The debate took place in the first week of November. It was very heated. Serious reproaches were directed against the Government. The Food Minister, Mr. Vik, had, in particular, to defend himself. This was not quite fair, because, as a matter of fact, in a number of ways he had been more far-seeing than his colleagues, while the whole Government was responsible for the mistakes that had been made. However, at the end of the debate he handed in his

resignation, it was accepted, and he was succeeded by the barrister, Mr. Birger Stuevold Hansen.

In view of the opinion expressed during these meetings of the Storthing it was quite obvious that the Government could not avoid a thorough system of rationing. It quickly had the necessary legal amendments accepted by the Storthing; and on December 21 a Royal Ordinance laid down regulations to "cover a complete rationing for sugar and coffee, all kinds of grain and flour and the products thereof as also beans, peas, rice, sago, etc."

While the discussions in the Storthing were still in progress the Government decided to recognize the attitude of America by making a number of restrictions in exports to Germany, but to refuse every demand for a total stoppage. On November 7 the German Minister and the Austrian *Chargé d'Affaires* were informed of this by Mr. Gunnar Knudsen and Mr. Ihlen.

The first proposal to the United States was made in a telegram from Mr. Ihlen to Dr. Nansen on November 14, 1917. The question was put as to the advantages America would guarantee Norway if she declared herself willing to stop the export to the Central Powers of a number of chemical, metallurgical, and mineral products, and limit the export of other products to fixed quantities. For foodstuffs a maximum of 40,000 tons of fish products, as covered by the Fish Agreement, and 8,000 tons of other fish exports were suggested, while the export of copper was to be regulated by the Copper Agreement.

On November 29 the American reply was handed to Dr. Nansen. It was given by the War Trade Board. It stated that the Norwegian proposal was acceptable in principle, but that the Board was not in full accord upon all its details. The chief American objections arose from the export to Germany of cupreous pyrites, ferreous pyrites, and copper after the expiry of the Rio Tinto contract, as well as the export of calcium carbide and calcium nitrates. So far as the proposal regarding the export of fish was concerned, it was accepted, but on condition that the quantities should be estimated in terms of fresh fish. The American answer to the questions as to the quantities that would be reserved for Norway was not given in this note. It was not delivered till January 20, 1918, and then only in a provisional form.

The second Norwegian proposal was handed to the War Trade

Board in a note of December 7. It declared that Norway could not accept the proposal to estimate the 48,000 tons of fish and fish products according to weight in fresh fish as it would be impossible to exercise any control under such conditions. On the other hand, Norway was willing to undertake certain restrictions in individual fish exports, and in the various metallurgical products, pyrites excepted.

The second American answer, dated December 20, accepted the Norwegian proposal governing the export of fish, but flatly refused to agree to that covering pyrites and the products of the chemical industry, emphasizing the fact that these articles were, to a great extent, used in the manufacture of ammunition.

This answer put the Norwegian Government in a most unpleasant position and it found it necessary to place the matter before the Committee for Foreign Affairs. But it proved to be difficult to discuss so delicate a question with a large committee, and not till January 26, 1918, could the Foreign Ministry send Norway's answer. It contained a lengthy explanation of the impossibility of completely breaking off commercial connections with Germany, first of all because such a procedure would be contrary to the principles of neutrality, and also because Norway needed certain German goods. However, the Government declared itself willing to undertake even further restrictions of exports to the Central Powers, and to give all possible guarantees against reëxport of the goods Norway was to obtain under the agreement.

Prior to the delivery of the Norwegian note, or on January 18, 1918, Mr. Gunnar Knudsen and Mr. Ihlen informed the German Minister and the Austrian *Chargé d'Affaires* that the temporary commercial agreement of January 23, 1917, could not be prolonged beyond February 1 because Norway, during the negotiations in progress, "had to be free on both sides." The export of fish would, however, go on until further notice. Admiral von Hintze, who had succeeded Mr. Michahelles as German Minister in Christiania, considered the situation to be so serious that he immediately left for Berlin to discuss matters with his Government. During his stay in Germany a note was handed to Mr. Ihlen containing far-reaching demands for supplies from Norway. When, on the publication of the Norwegian reply to America, it became known that the Norwegian Government had already agreed to limit exports to Germany

to quantities far below these demands, Germany took new diplomatic action. What she now first of all demanded was, however, that Norway should give her new assurances that she would remain neutral. The reason for this was a rumor circulating in Berlin which said that Great Britain was making efforts to secure Norwegian territory. There was not the slightest truth in it. But the Norwegian Government on March 9, in notes to the leading powers, "for various reasons" found it opportune again to assert that the country would maintain its neutrality. This political declaration had a beneficial effect upon the discussions with Germany, which were renewed on a better understanding.

While this was going on at Christiania the negotiations in Washington made but slow progress. Not till March 13 did Dr. Nansen receive a proposal for a definite agreement. This document was, however,—to use Dr. Nansen's expression in a telegram to Mr. Ihlen—"in form and contents extremely one-sided and inconsiderate, placing obligations upon Norway only." It therefore came as a complete surprise to the Norwegian delegates. But when, two days later, they had a conference with the American negotiators and lodged a complaint, they met with a further surprise. The chairman of the War Trade Board, Mr. McCormick, declared that the document in question did not contain an American proposal but was only "a provisory draft made out by one of their experts," and that the War Trade Board would, itself, take no responsibility for it. This explanation contained a commitment. Dr. Nansen, who throughout the conference acted with great decision, then demanded that the draft for a final agreement should be worked out by the American and Norwegian negotiators jointly, and he succeeded in carrying this through. To the first of the joint meetings which thus took place he brought a complete Norwegian draft. In this way the negotiations ultimately got under way along the right lines.

However, the Norwegian Government still reserved to itself the right of deciding the most important questions, so that it was not easy to make rapid progress. As time went on one after the other the delegates returned to Norway; finally Dr. Nansen remained alone with the secretary, Mr. Wilhelm Morgenstierne. Dr. Nansen grew steadily more impatient, and time after time asked to be authorized to sign at an opportune moment. But in vain.

The scarcity of goods in Norway now began to make itself felt.

The rations, in the opinion of many people, were not adequate, and the flour which the authorities were able to bring to the market was, in part, of inferior quality. At the same time the people were quieted by assurances that the negotiations were nearing a close, and the Director of the Food Board, Mr. Pedersen, was already in New York in order, personally, to conclude the purchases of cereals to be made under the agreement. The Americans also began to put on pressure, and Dr. Nansen came to feel he must make haste if he was not to risk losing what had already been won. In the afternoon of April 30 he, at length,—after conferring with Mr. Pedersen—found it necessary to sign on his own responsibility. Mr. McCormick signed on behalf of the United States.

The agreement was a very voluminous document with an introduction, five articles and eight schedules. It came into effect on May 10, 1918. It was to hold good "during the continuance of the present war," subject to termination by either party at the expiration of one year and, at any time thereafter, on either party giving three months' notice of intention to terminate.

The controversial points were solved in this way:

Exports from Norway to the Central Powers were to be limited to the following maximum quantities: fish, 48,000 tons (export weight); calcium carbide, 10,000 tons; calcium nitrate, 8,000; ferro silicon 2,000; iron ore, 40,000; zinc, 1,000; and aluminum, 40 tons. Cupreous products could be exported for due compensation in equivalent quantities in the shape of manufactures of copper; but in no event the aggregate quantity of copper exports to exceed 200 tons. All exports to Germany of domestic animals or their produce were to end, as were also exports of antimony, bismuth, mica, manganese, nickel, tin, titanium, wolfram, chrome-ore, molybdenum and nitrates—with the exception of the 8,000 tons of calcium nitrate above mentioned. Other Norwegian exports to the Central Powers and their allies were not to exceed the quantities exported from Norway to the said countries in 1917.

By way of compensation for the meeting of Norway's needs the Norwegian Government agreed to permit the export free of export taxes to the United States and the Entente Powers of a number of products which were enumerated. It was expressly stated that the Allies could reckon on exports from Norway of 112,000 tons of nitrates, 10,000 tons of cyanamide, 30,000 of calcium carbide, 3,000

of silicium carbide and similar products, 12,000 of aluminum, 20,000 of zinc, 500 of sodium, 20,000 of ferro silicon, 5,000 of ferro chrome, 3,000 of various steel and iron goods, 200,000 of iron ore, 130,000 of pyrites, 300 of molybdenum, 150,000 tons of round timber, 400,000 of lumber, 120,000 of mechanical pulp, 200,000 of chemical pulp, 125,000 of paper, 5,000 of matches, and 48,000 of fish products.

Norway was, so far as possible, to be guaranteed a yearly supply of 300,000 tons of bread grains, 200,000 tons of oil cake and Indian corn (calculated in terms of grain value), 14,500 tons of coffee, 160 tons of tea, 50,000 of sugar, 10,000 of pork and beef, 10,000 of vegetable and animal oils, 20,000 of oil seeds, 76,500 of mineral oils, 8,000 of cotton products, 3,700 of wool products, 6,500 of flax, hemp, jute, and tow, 250,000 of iron and steel, 7,000 of copper, 133,614 of iron ore, 1,000 of lead, 3,500 of hides, 5,000 of tanning extracts, and 5,000 of electrode carbon and carbon electrodes. Besides these chief commodities the agreement established definite quotas for many special articles, such as otter skins, moose horn, lead ash, and old electric motors.

Simultaneously with the final negotiations in Washington conferences were taking place at Christiania looking to a new commercial agreement between Norway and Germany. These conferences also made slow progress. The German Government, as a matter of fact, did not seem inclined, at that time, to bring any further pressure to bear on Norway; it had its hands full with other matters of greater importance; and Mr. Ihlen never wished to make haste. Not till September 14, 1918, did these negotiations end in an agreement. On September 27 it was accepted by the Norwegian Government; and it was the last of the Norwegian commercial agreements during the War. Like the one made with America it was an extensive arrangement, which rested on a thorough system of compensations. But within two months after its signing the armistice was agreed upon. Hence it was of less importance to Norway's current affairs than to her political relations with Germany after the War.

CHAPTER IX

THE OVER-EXPANSION OF STATE ACTIVITY

Even during the first two years of the War a great number of public mechanisms were set up to solve the new problems that had arisen. Thus, the Food Commission had organized one office for the trade in grain and flour, one for herrings, one for mackerel, one for other kinds of salted fish, and another for other kinds of fresh fish. Along with the Food Commission a Fuel Office was also in operation. In March, 1916, the State had bought three motorships, paying kr. 7,600,000 for them; and, at first in charge of private shipowners, they were being used as transports by the Food Commission.

After the establishment of the Food Ministry in August, 1916, a complete reorganization of these activities took place. The new Ministry left the business part of their work in the hands of a Food Board with Mr. Harald Pedersen as director. The administrative work of the Ministry was divided between a Food Department and a Fish Department. The various fish offices already in existence were, in part, discontinued, in part placed under a new central office. The administration of the State's shipping was transferred to a special Shipping Directorate. During the coal troubles a new branch of the Food Ministry was established under the name of the Fuel Department and given the task of organizing efforts to procure domestic fuel reserves. Advising the Food Ministry, from its establishment, was an extensive committee consisting of sixteen representatives of the different districts.

The Food Ministry had nothing to do with the special problem of supplies for the army and navy; they were handled, as before, by the Ministry of Defense. However, it very soon proved desirable for the latter to be in touch with the leading business men as well as the heads of the civil administration. The difficulty of this coöperation was, principally, that it had to be carried out quite secretly. Major-General Holtfodt, who since August 10, 1914, had been Minister of Defense, therefore induced the Government to appoint ten auxiliary commissions, consisting of civilians, to assist in that work; the committees were later consolidated in one central organization.

In the course of 1916 these commissions were engaged with the problems of the so-called "Industrial mobilizations," i.e., the questions of an eventual reorganization of the civil industries for military purposes. During discussions of this the idea was advanced that, even if the country did not become implicated in the War, there existed a need for some special agency to supervise the import and the distribution of raw materials. The Government at first opposed the idea, but afterward consented to it; and on April 27, 1917, the Storthing resolved to establish a Ministry of Industrial Supplies. Mr. Torolf Prytz was appointed as its chief.

The new ministry was divided into three main departments. Two were placed under the management of a so-called general secretary. Department I concerned itself with matters of civil supplies, Department II with those of industrial mobilization. Department III was, on the other hand, equipped as an independent directorate under the name of the Fuel Board; it took the place of the Fuel Department. Department I was divided into four large bureaus, one for industries, one for export prohibitions, and one for the exchange of goods with Denmark and Sweden, while the fourth such bureau acted as a secretariat. A general Council of Industries, consisting of eleven members, was appointed to assist in coöperating with the trade organizations. To coöperate with the branch associations the Ministry organized special institutions. They were called "Centrals." There were, in all, five of them, viz., one for textiles, one for leather, one for metal, one for the chemical industries, and one for iron and steel. To assist the Department for the exchange of goods with Denmark and Sweden a special commission was appointed.

In connection with the organizations established by the Ministry of Industrial Supplies it may also be mentioned that, on the initiative of the Prime Minister, a committee of scientists was appointed on November 16, 1917, with the object of investigating the possibilities of a more systematic utilization of the country's iron ore, minerals, and varieties of stone. It was called "The Committee of Raw Materials," and its head was the well-known geologist and mineralogist, Dr. V. M. Goldschmidt.

Partly in coöperation with the Food Ministry and partly with the Ministry of Industrial Supplies, two committees dealt with the problem of fats. The first of these was appointed in the fall of 1917, the second in January, 1918. On the proposal of the latter committee

a Fat Board was established on February 11, 1918, with Mr. Haakon Hauan as its director.

The preparatory investigations preceding the introduction of rationing were carried out by several committees. In order to make the arrangements a special Board of Rationing was established under the charge of the Food Ministry. The economist, Mr. Haakon Five, was its director up to the beginning of 1919, and later the economist and statistician, Mr. Gunnar Jahn. It had also the help of a council, while local committees all over the country, 817 in number, were in charge of the details of the rationing work.

When prices, in the course of 1917, rose exorbitantly, a special Price Board was established with Mr. Wilhelm Thagaard as director. Simultaneously a Committee of Freights was appointed.

These new State institutions started a number of public business enterprises for the utilization of the country's domestic resources and the guaranteeing of supplies. The most important of them dealt with cereals, fuel, and fats.

The first great extension of the trade in grain and flour was made in the late fall of 1916. The State decided to expropriate the largest flour mill in Norway, that of Vaksdal, which is situated just where the Bergen railway runs down to the fjord. It was utilized for the grinding of graham flour and other flour stocks of high percentages. The actual reason for the expropriation was that the Government, in the fall of 1916, while the U-boat conflict was going on, feared a war with Germany, and wished to secure this particular mill because, on account of its situation, it was considered especially easy to defend.

At the same time the State also began buying up Norwegian grain. However, it was possible to obtain only small quantities, because the more difficult the political position appeared, the less inclination had the farmers to sell.

When the entire rationing of grain and flour was decided upon at the end of 1917, the State also took over the whole import of cereals. From 1918 it had, therefore, a monopoly of the import of grain and flour, it was in command of the largest mill in the country, and it bought up all the domestic crop which was put on the market. The administration of all these activities was centralized in the Food Board, and Mr. Pedersen in this way became one of the greatest captains of industry in Norway.

The fuel business of the State was started a short time after the imposition of the British prohibition. The Fuel Board proceeded to make considerable purchases. An increased cutting of timber also began in the State forests. But that was not all. On March 23, 1917, a law was passed authorizing the King to order men doing military service to engage in civilian work, and 8,000 were called out to do wood cutting. Even in the summer of 1918 the Fuel Board continued all its activities on a large scale, although its sales in 1917 had been much smaller than anticipated. At the end of the War the stocks on hand had to be sold at rapidly falling prices. On July 22, 1919, the Storthing made a grant of kr. 10,000,000 to cover the loss.

The lack of fats had begun to make itself felt some months before the coal shortage. The chief of the Food Ministry, Mr. Vik, conceived the idea of doing whaling along the Norwegian coast in order to procure supplies of animal fats. Some weeks after his resignation the Storthing accepted his idea, passing a law which allowed whaling in Norwegian waters, but made it a State monopoly.

Mr. Vik had also started a number of experiments to learn whether whale fat could be refined in such a way that it might be used as a raw material in the production of margarine. Great difficulties had to be overcome. In the first place, whale fat has a high melting point, and secondly, a very pronounced taste and smell. In the course of the fall of 1917, however, it proved possible to produce an article which could be used as a substitute for margarine. Also whale meat was used during the last year of the War. But neither whale fat nor whale meat became really popular. It was rather well meant than true when a well-known popular speaker in a lecture in the fall of 1918 called the whale "our dearest domestic animal."

In 1918 the State's whaling accounts showed a profit of about kr. 600,000; but the industry was continued after the end of the War, and by December 31, 1919, a net loss of kr. 100,000 had been incurred. Later on it increased and finally reached kr. 3,789,812.

Mr. Vik's work on fats did not exhaust itself in the starting of whaling and the conducting of experiments in the margarine industry. He also, at a cost of kr. 2,100,000, expropriated the stock of the Vera Refinery, in all 700,000 kilograms, and used it to prepare light animal oils for margarine production. The Vera, however, possessed only a minor share of the quantities of fats stored in the

country. The largest stocks were lying in "*De nordiske Fabrikker*" in Fredriksstad, the so-called "De-No-Fa"; they totaled, in all, 18,500,000 kilograms of eatable fats and 1,500,000 of industrial fats. On October 19, 1917, the Food Ministry was given authority, by Royal Ordinance, to take them over. The sum to be paid was fixed by the commission appointed so to do at kr. 60,000,000.

As a consequence of this policy the State, at the end of the War, had on hand large stocks of eatable fats and fats for technical uses. They were, for the greater part, sold to Germany on favorable terms. The State's transactions in fats realized a total profit of kr. 592,000.

The only State enterprise that gave a better result was its shipping department which liquidated with a net profit of about kr. 15,000,000.

When the scarcity of fats moved the Government to take possession of the stocks of the Vera and the De-No-Fa, new and great difficulties developed in the fisheries.

As mentioned in Chapter VI, an inventory of the old stocks was made in January, 1917. It gave the result that in some cases illegal exporting to Germany had taken place, but that only small quantities had been smuggled out. It also appeared that it was not only the Norwegian exporters who, in the fall of 1916, had given incorrect information as to stocks on hand, but also the British Government's own agents.

The British purchases were made through a special institution, the British Purchasing Agency, commonly called the "B.P.A.," with Consul Mackay as its Managing Director; but the expectations of the Norwegian fishermen that were based on the British purchases were never fulfilled. There were two reasons for this.

In the first place, the purchases from the large seasonal fisheries in 1917 were limited on account of a misunderstanding between the B.P.A. and the Norwegian Food Ministry. According to the Fish Agreement the British buyers would, every year, "state whether they would buy their fish slightly salted as klipp-fish or as stockfish." It had not, however, been expressly stipulated whether the fishermen should be advised of the fixed percentages by the Norwegian authorities or by the B.P.A. The Food Ministry thought the B.P.A. would make the announcement, while the B.P.A. merely sent a communication to the Norwegian Ministry for Foreign Affairs, feeling

sure that the Norwegian authorities would make it public. Before the misunderstanding had been discovered valuable time had been lost, and the fishermen had prepared too great a percentage of klipp-fish. The fisherman, unable to dispose of their klipp-fish to the B.P.A., threatened to take action for damages against the State.

Second, the enormous rise in the prices of raw materials made the sales to the B.P.A. less and less profitable. While the B.P.A. still bought at the prices which were fixed according to conditions in the summer of 1916, the prices for petroleum from July 1, 1916 to July 1, 1917, rose by 54 per cent, cylinder oil 178 per cent, ordinary oil 182 per cent, fishing tackle 89 per cent, tarred rope and manila rope 94 per cent, herring nets 61 per cent, war insurance 100 per cent, and coal 285 per cent. The increase in the cost of salt was about the same as that of coal.

When these discrepancies had been made clear to the Norwegian Government, on November 15, 1917, it approached the British Government with a request for a very moderate increase in the purchase prices. But before this, on October 20, Mr. Vogt had telegraphed that the British Treasury had declared its unwillingness to permit purchases of fish in Norway after the end of November, and on November 22 the British Legation informed Mr. Ihlen that the buying obligation for most of the fish products would be terminated. This resolution was probably meant to support the American War Trade Board in its negotiations with Dr. Nansen.

In this way the Norwegian fisheries suddenly lost their principal war market, and the Government induced the Storthing to agree to a State guarantee of minimum prices for the most important products of the new catch. Later on the Storthing also agreed to the taking over by the State of all stocks of klipp-fish and stockfish then in the country; this was a peace offering to the fishermen for the mistake made in the belated publication of the British percentage proportions in 1917. Also, after the end of the War, such purchases of fish were, for some time, continued. The total loss to the State was, in this case, about kr. 163,000,000.

To add to the starting of new business enterprises and the support given to the fisheries an extension of the controlling and regulating activities of the State also took place in the last years of the War.

In the first place we must speak of the rationing system which

was inaugurated on January 1, 1918, after the taking of a general census of the current business and private stocks of all rationed commodities on December 31, 1917.

The common ration for persons belonging to households not growing grain was fixed at 200 grams per day, measured as flour. This daily ration could be taken in the shape of 200 grams of flour, 260 grams of bread, or 160 grams of biscuits. Purchasers had to show cards on which the daily ration was divided among four tickets, each of which was good for 50 grams of flour, 65 grams of bread, or 40 grams of biscuits. Households which possessed stocks of their own had to ration themselves as long as such stocks lasted, only 3 kilograms of flour value per household member being allowed. Additional cards were granted for those doing hard manual labor. The extra ration was fixed at 150 grams per day for agricultural laborers and workmen in the building trades, and at 200 grams for fishermen and lumbermen; for factory hands the extra ration varied between 50 and 100 grams; women, in general, received 50 grams or less per day than men in similar employment. Finely ground wheat flour and bread baked from it were reserved for hospitals and the sick, everyone else being limited to flour coarsely ground.

For households that had grown grain in 1917 an average ration, corresponding to 2.5 kilos of rye per week was fixed per "computed person." Individuals over eight years were computed as whole and those under eight years as half persons.

The sugar ration was originally 1,000 grams per month. From March 25, 1918, it was reduced to 200 grams per week. Chocolate factories were allowed 60 per cent of their average consumption of sugar in 1916, candy factories 20 per cent, syrup and jam factories and aerated water bottlers 30 per cent, while condensed milk companies and drug stores were allowed to cover their whole requirements.

The coffee ration was originally fixed at 250 grams of roasted coffee per month; from March 25, 1918, this was reduced to 50 grams per week. Children under six years got no coffee card. From April 20, 1918, the consumption of tea was included in the coffee ration so that rations of tea could only be had against a corresponding reduction in the coffee ration. The tea ration was 10 grams per week.

A rationing of grain and meal for fodder was simultaneously in-

troduced. Cereals were allowed only for horses, pigs, and poultry, and that was conditional upon the cereal's being unfit for human food.

Restaurants and other places serving food for payment were forbidden to have a bill of fare with more than three courses, including soup and dessert; also only one fried course was allowed. From May 21 no meat was to be served in any public eating places on Tuesdays and Fridays.

The rationing system was maintained throughout the whole of 1918 and the first months of 1919. It no doubt made more radical encroachments on the daily life of the people than any of the other public measures. Nevertheless, it was the one which awakened the least displeasure. This was partly due to the fact that everyone was convinced of its necessity, partly also to its almost faultless organization. Nor did it turn out to be especially expensive. The total expenditure was about kr. 9,000,000.

At the time when the American negotiations were at their critical stage compulsory grain growing was suggested to increase the home crop; and on March 23, 1918, a law was passed authorizing the Government to compel farmers to cultivate certain unfarmed areas. This authority was made use of in 1918. An increase of 200,000 acres under cereals was the aim of the measure. This was not reached, and the increase that actually took place proved to be a completely temporary phenomenon. This will be seen from the following figures, in hectares, derived from official statistics:

	Field corn, peas, and beans	*Potatoes*	*Other field crops and fallow land*	*Total area*
1907	1,721,690	409,153	332,517	2,463,360
1917	1,802,076	457,978	208,652	2,468,706
1918	2,482,048	527,755	216,725	3,226,528
1923	1,841,576	462,992	316,128	2,620,696

The effect of the compulsory increase of crops appears from the following figures:

	Grain (tons)	*Potatoes (tons)*	*Hay (tons)*
1916	351,598	794,411	3,075,007
1917	387,977	1,080,470	2,526,356
1918	440,694	788,007	1,685,701
1919	409,872	1,031,796	1,715,363
1921	352,472	713,573	1,834,928

The table shows that the increase in the grain crops in 1918, to some extent, was attained at the expense of hay. The grain of 1918 was also, in part, of inferior quality. Considering that compulsory grain growing meant serious interference with the previously planned rotation of crops, and that the agreement with America secured a supply of 300,000 tons of bread grains besides maize and other fodders, compulsory cultivation can hardly be called a success.

Six months before the inauguration of rationing Norway had already resorted to comprehensive *price regulation.*

In Chapter II it has been told how the Food Commission, just after the outbreak of the War, had introduced certain maximum prices, but that they were not in force for more than a month. Later on the Food Commission twice fixed temporary maximum prices when, for some reason, an incidental and transitory scarcity arose in the supply of special articles. Mr. Vik tried in the fall of 1916 to introduce a system of local maximum prices, which were fixed by the food councils of the parishes. The result was general confusion, and the local maximum prices were soon done away with. Hence, in the summer of 1917, there were left only maximum prices for the fish products included in the Fish Agreement and for milk and cream. The new system of price regulation was inaugurated by a law of July 6, 1917, which permitted the Government to give instructions concerning the sale of goods and the profits received. With this provision at its back a newly established Price Board made efforts to combat the general rise in prices. At that juncture, however, currency inflation was in full swing, and measures aiming at a regulation of prices were accordingly a failure in principle. The results of price regulating also proved to be most disappointing.

The first step of the Price Board was to forbid trade organizations to issue price quotations binding on their members. The result was that merchants immediately stopped publishing price quotations, and in a few days the prices of some important things rose more than 100 per cent. The Price Board then took another course. It set limits to the average selling profits in the several trading branches, a procedure which caused innumerable conflicts without being able to check the rise in prices.

At the same time new maximum prices were fixed for milk, cream, butter, and cheese, and for hay, straw, and chopped straw. For dairy butter the maximum price to begin with was fixed at kr. 5.40

per kilogram. Butter producers, however, found the price so low that they no longer had any interest in putting it on the market. Butter supplies immediately stopped entirely, and from the beginning of 1918 it was impossible to buy a kilogram at the maximum price. People in the towns who wanted butter had to make excursions to farms in the country districts and buy at exorbitant prices. Ultimately the authorities were even unable to procure butter for the hospitals and the sick. The Price Board, naturally, and at a very early stage, must have been aware that it was carrying on a foolish policy in this respect. By political economists it was also strongly emphasized that the fixing of maximum prices for goods which were subject to continuous production and daily sale was contrary to economic laws. However, the authorities would listen neither to complaints nor to theories. They stuck to their ground. On March 15 the Food Ministry even prohibited all consignments of butter to others than the food councils. Any child could understand that it was impossible to maintain such a prohibition. It was continually evaded, prices rising to kr. 20 and kr. 30 a kilogram. But the worst effect of the official butter policy was that it contributed to break down respect for authority and obedience to law.

At the beginning of price regulating it was the acknowledged supposition that it should only be applied during the actual war period. It proved, however, that the Price Board had acquired a position of power and it succeeded in maintaining its activities even down to 1926.

As mentioned, simultaneously with the passing of the law for the regulating of prices a system of maximum freight rates was inaugurated. The main lines of this system had been drawn up by the professor of economics, Dr. Oskar Jaeger, who had been in charge of the preparation of the law. In accordance with similar arrangements in Great Britain and Holland, a special board obtained the right to requisition the tonnage which was required for the import of necessaries; and maximum freight rates were fixed for the ships commandeered. The loss was not, however, to fall on the owners, who were kept from benefiting by the high market rates, but was prorated on all shipowners according to their registered tonnage. This innovation of Dr. Jaeger entirely changed the character of the requisitions, making them a sort of special tax.

Also, in a third sphere, the process of price building was influ-

enced by legislation, in as much as the regulation of house rents was inaugurated. The first step was taken on December 17, 1915, in an emergency law conferring upon the town councils the right to fix maximum rents for flats of not more than three rooms and kitchen, maid's room included. The district corporation in thickly populated country parishes obtained the same right. For this emergency law there was substituted a law of May 10, 1916, bestowing upon the town councils, respectively, and the district corporations, power to appoint committees to fix all house rents according to the provisions of the law. Finally, on December 14, 1917, a more detailed law was passed, giving tenants a number of new privileges.

It must be admitted that when these rent regulations were published housing conditions were such that it was most desirable in some way to afford protection to tenants. Even in pre-war years there was a scarcity of house room in the large towns, especially in Christiania; and various circumstances had caused a big increase in the demand for house room during the War. People crowded into the towns from the country districts, as they generally do in years of economic prosperity. Christiania had to house several thousand foreign refugees. The many new industries and the great expansion of public activities led to an increased demand for offices. The increasing incomes created a wish among many people to improve their standard of living. And many marriages took place.

The fault in the new legislation for the regulating of house rents was, however, that consideration was only given to the temporary interests of the tenants, while nothing was done to encourage the building of new houses. As so often, both in legislation and science, statics instead of dynamics were thought of. The result was complete stagnation in house building. During the War almost no new houses were erected other than the palaces of the new millionaires.

Among war-time social provisions we shall, finally, mention alcohol legislation.

As stated in Chapter II some temporary measures regarding the production and sale of alcohol were taken at the outbreak of the War. The real initiating of a systematic policy in this field dates, however, from 1915. A law of August 20, 1915, prescribed that the Government under extraordinary circumstances, and in order to promote the maintenance of public peace and order, could temporarily forbid the import of alcohol from abroad and the handling

of it within the country. The Government made use of this power to enforce total prohibition during the Christmas season of 1916. This measure was an undisputed success, and the prohibition was then prolonged until the matter had been dealt with by the Storthing. At the moment when the discussion in the National Assembly took place the seriousness of the war situation had become clearer than ever before, and, at the same time, a scarcity of food was expected. The opinion then was that it would be right for the people temporarily to give up strong drink. By a law of May 25, 1917, which was passed unanimously, the Government was empowered in war-time, when prices were excessive, and under similar extraordinary conditions, to prohibit the import of and traffic in spirits and other intoxicating drinks. The same day the law was sanctioned prohibition was brought into force for all beverages containing over 15 per cent of alcohol. By an ordinance of June 28 the limit was fixed at 12 per cent. Simultaneously a prohibition was imposed upon the grades of beer which were in general use, and the breweries were compelled to produce other grades practically free from alcohol.

The alcohol legislation during war-time was among the least disputed measures passed by the State authorities. It was not until the question was raised of war-time prohibition being made permanent that a struggle began, and from that time dated the great difficulties of enforcement. The history of the conflict over prohibition belongs to the post-war period.

The measures taken by the State authorities in the last two years of the War have, as a whole, been taken to be manifestations of a socialistic, semi-socialistic, or even communistic, policy.

None of these designations seems suitable. Not in any of the numerous official documents of the war years is it possible to find indications of socialistic or communistic ideas in government. The fact was simply that the controllers of Norwegian policy during the War did not work in accordance with any theoretical systems; it was far from them ever to lapse into thinking theoretically. They merely took up the different problems which were presented to them in the course of events. It would be nearer to the truth to say that every time a new problem cropped up they created a particular agency to deal with it.

But the Government was not especially anxious that these new agencies should belong to the State. On the contrary, it even tried to

escape this. Thus import arrangements were left in the hands of the branch associations as long as possible. So far from the Government endeavoring to concentrate all authority in the State's own bureaus, it conferred far-reaching authoritative powers upon private institutions. The Shipowners' Association, during the making of the Tonnage Agreement, was empowered to make decisions in matters which, according to constitutional custom, belonged to the absolute sphere of government administration. When, ultimately, import "Centrals" were established by the State, this was a result of developments outside the country, a natural consequence of the introduction of the international compensation system.

A similar, or even much more marked, expansion of state power had taken place in the belligerent countries. But state control over the economic life of the fighting nations can certainly neither be called socialistic nor communistic. It was militaristic. Norway's strong commercial dependence on the belligerent countries finally forced a corresponding centralization of Norwegian production and trade as a remote but unmistakable effect of the same new militarism.

In so far as the Government's economic policy with this compulsory concentration, gradually assumed a decided tendency, this might rather be described as the tendency to "become the consumer's friend." Remembering all the difficulties that had to be overcome in order to ensure imports, the Government was tempted to feel itself to be the true guardian of the consumer, the exerciser of a special paternal care. In several cases this benevolent State interest also extended to groups of producers. The fishermen, in particular, always found willing listeners in the members of the Government. It may be permissible in this connection to recall that no less than thirty-four of the seventy-four members of the government majority in the National Assembly on one certain occasion acted in the capacity of representatives of the fishing industry.

The fact that economic policy in the last two years of the War may be said to have followed certain decided tendencies, but was in no way managed according to a consistent plan mapped out beforehand, had this result, that the organizing of the work done took the stamp of improvisation and coincidence, and that it was not kept within reasonable limits. The State war bureaus started modestly and on a small scale. In the last war years they continually expanded until all their activities had become overorganized and overadmin-

istered. It might be said that the State bureaus in 1917 and 1918 augmented their number by "gemmation." In the terminology of economics we may be allowed to say that state activities gradually came to be "inflated."

Under normal conditions such an inflation of state activities would have been halted by financial reasons. The most natural thing would have been if, in the years of the War, a sound checking of the tendency to inflation had come from the financial authorities. But the Ministry of Finance soon lost any control of these new and wide-spreading state activities. Hence the country, during the War, drifted into financial disruption.

CHAPTER X

FINANCIAL DISRUPTION

By the Storthing of August, 1914, as mentioned in Chapter II, kr. 15,000,000 had been placed at the disposal of the Government "for such extraordinary measures as the present situation might demand." At the same time the Storthing resolved to give the Government full power to take over—upon guaranteeing payment—the necessaries of life to whatever extent might be found "urgently called for." Some few days earlier the Storthing had also given the Government full power to settle the expenditures connected with the mobilization of the military forces.

Looking at this collectively there can be no doubt as to the extent of its significance. The Government received permission to use necessary means to defend the country's neutrality and procure supplies of the most important articles. As an estimate of the amount required for these purposes the above sum of kr. 15,000,000 was entered in the current budget.

The Government, however, misconstrued the scope of the Storthing's action. It acted on the supposition that the powers bestowed on it were bestowed for the whole period of the War. Therefore, it did not, later on, ask the National Assembly to give its approval to the purchases it made or the responsibilities it assumed. This was, in reality, contrary to Norwegian constitutional usages, which prescribe that resolutions of this nature made by the National Assembly shall be valid for the current financial year only. It was even more remarkable that the Government in subsequent financial years did not—as in 1914—apply to the Storthing for an approximate grant to cover the expenses of its new State activities. In spite of the fact that the Norwegian constitution expressly states that the National Assembly shall grant the necessary sums for the expenditures of the State, the Storthing was in this way kept entirely in the dark concerning the financial side of the actual war administration. The consequence was that the Government was able to exercise financial power during the War without being subjected to the control which otherwise is practiced through the making up of the budget in the National Assembly.

In the first place, the onus for this breach of the fundamental principles of the constitution must be laid upon the Government, which, as seen from a parliamentary angle, was also in a position to act high-handedly, since it was supported by a large majority in the National Assembly. But the odd thing is that neither of the two Opposition parties in the Storthing, the Social Democrats and the Conservatives, took any action whatever to enforce a more correct method of procedure. Even in this field, where criticism would have been justified for weighty reasons, the Opposition showed a loyalty which it cannot take credit for. We are here confronted by one of the many strange manifestations of war psychology. The catchword of "*l'union sacrée*" had the effect of weakening that criticism which maintains a balance in the parliamentary system.

On account of the method of procedure chosen the National Assembly had no chance to acquaint itself with the extraordinary expenditures before the presentation of the State accounts. Thus, not till January, 1917, did it receive information concerning the expenses involved by the war situation in the period from July 1, 1915, to June 30, 1916, and the explanation then given was unsatisfactory and liable to be misunderstood.

All the necessary figures were given for expenditures connected with military and naval measures. These were, however, not entered in the accounts of the budget. It was briefly stated that they were "not entered in the national accounts but debited directly to the treasury." This most mysterious expression would seem to mean that the amount had been covered by the ordinary current funds of the Ministry of Finance. In the so-called "balance sheets," which accompanied the budget estimates, there was also a department under a corresponding head,—"Treasury Accounts" (Statskassens beholdning)—which showed steadily increasing figures throughout the war period. To the general public the figures under that head were made known through the press and, as very few ever cast a glance over the "balance sheets" themselves, nearly everyone got the impression that during the War great and extraordinary revenues were flowing in, and that the expenditures for the military and maritime measures were being covered by that unexpected influx. Even members of the National Assembly seem to have been of this opinion.

In reality, "Treasury Accounts" was an example of pure bookkeeping terminology, and what the term stood for appeared in the

balance sheets not as assets but as liabilities. It showed the amounts that were presumably covered and represented either by cash on hand and in the banks, or by "receipts for advances," that is, for sums which had been expended but which had not been voted by the Storthing. The amounts which were received from the loans were also in their entirety included under this head. Hence the expression that an expenditure was "debited directly to the Treasury" did not necessarily mean that it was covered by available surpluses. It might also mean that it was covered by loans. This latter was actually true in the case of expenditures for military and naval measures during the War, which for the four critical years amounted in all to kr. 189,000,000.

Concerning the expenditures for the industrial activities of the State during the years of the War no real information was ever given in the national accounts. The disbursements made to the Food Board and the Ministry of Industrial Supplies were not given in the budget accounts but exclusively entered in the balance sheets as "advances." The basis for this was the feeling that these sums were not finally gone, inasmuch as goods had been bought with them, and their value, accordingly, was recoverable as supplies on hand. Whenever the goods were sold the money would come in again, perhaps even with a profit added. Had, however, the Ministry of Finance been faithful to this idea, it would at least have demanded that the supplies on hand be valued at the end of each financial year, and all inevitable losses be written off; the balance would then have been entered in the next budget estimates. The Ministry of Finance did nothing of the sort. Not even when peace was declared, and everyone knew that the values of all reserve stocks of goods was rapidly declining, was any such writing off demanded. It was only when the State's inflated activities were definitely liquidated that the Ministry of Finance was in a position to judge whether there was profit or loss. It then developed that in the various activities under the Food Ministry there had been, in all, a net loss of about kr. 235,000,000—including losses on the fish purchases; and in the activities under the Ministry of Industrial Supplies there had been a loss, in all, of about kr. 25,000,000.

This deplorable result was, in reality, chiefly due to a complete lack of basic thinking. From the viewpoint of rational economics, one of two methods could have been chosen for the administration of

the finances during the War. Either all new activities could have been fitted into the old frame as conveniently as was possible: it was in this direction that the decisions of the Storthing in 1914 had pointed. The money grants would then have had to be made in general but ample sums, and they would clearly have made heavy demands on the budgetary balance. Or the State might have set apart the Food Board and the other industrial administrations as special State institutions. They would then, and once for all, have been granted a capital fund with obligations to pay interest on it, and pay it back into the Treasury when and in proportion as their activities were gradually brought to an end. In so far as their capital funds had not proved adequate, each institution would have had to procure for itself a working capital through bank credits based on the security represented by its supplies on hand. A number of Norwegian public institutions occupy such a position. All the savings banks, being about five hundred in number, and the mortgage banks, are institutions of this character. It would, thus, have been quite natural to settle upon such a form of organization. Several times the director of the Food Board, Mr. Pedersen, tried to induce the Government to adopt the system; but it was in vain.

Thanks to the irrational bookkeeping here depicted, the members of the National Assembly were, all along, under the impression that the finances were in a most flourishing state. Being deprived of any knowledge of the latent losses they were simply compelled to believe it, and for good reason. For the revenues from direct taxation were constantly growing, and in a surprising manner.

Typical was the increase in the ordinary income and property tax receipts, which is shown in the following figures:

Revenue from Income and Property Tax.

1914-1915	kr. 18,714,520.04	1916-1917	kr. 116,304,412.43
1915-1916	50,127,284.62	1917-1918	150,658,163.59

By a law of August 17, 1915, an extra tax had been imposed on war profits. This source of revenue was a still richer one, as is seen below:

Revenue from Tax on War Profits.

1916-1917	kr. 39,625,269.57	1918-1919	kr. 232,120,250.83
1917-1918	160,274,771.92	1919-1920	239,138,307.97

Finally, by the law of February 23, 1916, a special tax was imposed on ship tonnage, calculated chiefly per gross ton. This tax, in each of the three periods, 1917-1918, 1918-1919, and 1919-1920, yielded about kr. 20,000,000.

The government accounts which were presented, being essentially incomplete, accordingly showed large surpluses. Under these circumstances the National Assembly not only gave welcome, though insufficient, war bonuses to State officials and employees, but also so-called "grants to counteract the high cost of living:"—for 1916-1917, kr. 10,000,000; for 1917-1918, kr. 84,000,000; and for 1918-1919, kr. 101,000,000. These grants were, in part, made directly to the individual and, in part, through the parish. They weakened the finances of the State without being of any assistance worth mentioning to the receivers.

The final results of financial developments during the War will be seen from the statements showing the growth of the national debt. They are given below according to the latest publications of the Statistic Central Bureau. All figures are calculated at the par value of the krone:

The National Debt.

(in thousands of kroner)

As of June 30, 1914	357,300	June 30, 1921	1,190,500
1915	421,300	1922	1,282,000
1916	422,900	1923	1,394,000
1917	455,500	1924	1,549,900
1918	736,600	1925	1,731,600
1919	1,008,000	1926	1,610,600
1920	1,129,600	1927	1,568,400

CHAPTER XI

THE WAR CYCLE AND CURRENCY INFLATION

Observations have made it clear that the periodicities of business life in Europe and America showed a striking regularity in the years between 1815 and 1899. The theories of business cycles have been based on these observations. Almost without exception they have tended to explain the cause of "regular industrial fluctuations" and "cyclical oscillations."

To conceptions connected with this traditional way of thinking the war cycle falls outside the series of events which are of theoretical interest. On the whole, it does not fall in with any scheme of regular movements. It stands by itself, an outside phenomenon, which cannot be of any help in the solving of the problem.

The traditional treatment of business cycles tries, however, to explain the causation of two different phenomena, viz., to explain why there exist fluctuations in human business, and why these fluctuations within a certain space of time have followed an unmistakably regular course. If the problem is split up in this way the war cycle is seen to be of particular interest just because it breaks through that traditional regularity of business oscillations.

Norway, in the years directly preceding the outbreak of the World War, had a period of prosperity, with growing business initiative and increasing wealth. But there occurred no boom in the stock market and no sudden rise in prices to make it difficult for people on fixed salaries to keep up their standard of living.

August, 1914, indicates the first new phase in the development of the cycle. That month shows the following characteristics: prices rise greatly, especially those of necessaries. Inward freights rise still higher. A tremendous pressure on cash payments and foreign currencies is felt. The Norges Bank's circulation of notes increases from kr. 123,730,000 at the end of July to kr. 152,000,000 as per August 7. The rates of exchange rise high above the bullion points of the previous Gold Standard. The pound goes up from kr. 18.27 at the end of July to kr. 18.50 on September 1. Simultaneously, orders are canceled and factories close. Much unemployment develops.

In our first and second chapters the course of events in this phase of the cycle is described in detail.

What makes these data interesting is the fact that they represent a synchronism between phenomena which generally are not correlated and which, according to several theories of crises, cannot be correlated. An incipient rise in prices usually means increased activity, while the price boom in August, 1914, was immediately followed by depression. The explanation is of a purely psychological nature. The dominating feeling in August, 1914, was anxiety for the future. But anxiety for the future at the same time induces consumers to increase their demands for necessary articles and the producers to boat their oars. The phenomenon is of considerable interest because it illustrates to what degree the general business cycle is conditional upon psychological factors.

When the panic was over prices again fell. The note circulation, however, continued to be high throughout the fall. But gradually paper issued in the critical weeks came back again; and in January, 1915, the note circulation had gone down to about the same level as in July.

In 1915 came the next phase in the war cycle. The most characteristic feature of this period is the fact that business men were in a position to make the most of the economic possibilities which the War offered without, to any great extent, being repressed or impeded by State interferences, either abroad or in Norway. This was the period of unrestricted prosperity.

This period is described in the previous chapters, particularly Chapter III. Merchants enjoyed the benefit of being able to sell to both belligerent groups. Shipowners made much money; gross freight revenue from foreign trade amounted to kr. 474,500,000, as compared with kr. 211,500,000 in 1914. The mines had an excellent year; the fisheries profited by the German purchases; and farming went on in the shelter of the high prices of imported cereals, which was a result of the increase in homeward bound freights.

These events brought about a turning point in foreign exchanges. In the days between March 5 and March 9 sterling reached kr. 19.61 and the dollar, kr. 3.87. They very quickly reacted. Sterling went back to gold parity, kr. 18.16 on August 30, 1915, and the dollar to its old gold level, kr. 3.73 on November 20. At the end of the year sterling was quoted at kr. 17.35 and the dollar at kr. 3.70.

Simultaneously, the circulation of notes again began to increase. In April, 1915, it had reached the level of August, 1914; in December, 1915, it was kr. 162,210,000. There is hardly any doubt that this increase was a result of the growth of foreign markets. In the last nine months of the year, in particular, there was a steadily increasing demand for Norwegian kroner from abroad. Norwegian shipowners and exporters considered it safest to take home the money earned in foreign countries. And foreign importers had to take upon themselves the obligation to pay in kroner for their purchases from Norway. If the Norges Bank had not covered a part of the great demand for kroner by issuing new notes, the result, in the first place, would have been that the rates on Norwegian notes, checks, and bank deposits would have risen still further. In the second place, the result would also, in this case, probably have been an increase in the circulation of notes. This is coherent with the provisions in the Norwegian Gold Standard Act of 1875.

The monetary system in Norway from the seventies to 1914 was a pure gold standard. The bank of issue was obliged to exchange gold for notes and notes for gold at a fixed price of kr. 2,480 per kilogram of fine gold; from gold purchases, however, a commission of ¼ per cent for mintage expenses could be deducted. Besides, anyone could demand the assaying and coining of the gold he delivered to the Mint. The redemption of notes had been suspended in August, 1914, but the obligation of the Bank to buy gold at a fixed price and the mintage obligations still held good. When then, on the whole, the price of Norwegian paper money and Norwegian circulating credit could, for months, remain above the point at which it would be profitable to foreign debtors to pay in gold, this was due to the prohibitions on private exports of gold which were generally introduced at the outbreak of the War, and the disinclination of the different foreign banks of issue to export gold. There is, however, every reason to believe that if the Norges Bank, in 1915, had not expanded its note circulation, the difference between the rates of Norwegian paper money and its legal value in gold would soon have become so great that the foreign banks of issue no longer would have continued to buy Norwegian paper money on the exchange market, but would have overcome their disinclination to export gold and resorted to large remittances of bullion, thus forcing the Norges Bank to issue great sums in notes in order to pay for the gold at the

legal price. Even with the check to the rise in the foreign value of kroner which had been caused by inflation, Norwegian paper money, at the beginning of 1916, had reached such a level that large quantities of gold began to flow into the vaults of the Norges Bank.

The monetary system itself could, however, be altered.

In Sweden, which had the same system, a suggestion in that direction was made toward the end of 1915 by the professor of economics, Mr. David Davidson. His views were soon accepted by the Swedish authorities. On February 8, 1916, a law was passed empowering the Swedish Government temporarily to release the Riksbank from its obligation to buy gold, and to cancel the statute by which everyone had a right to bring bullion to the Mint to have it assayed, coined, and delivered. At a meeting in Stockholm on February 23 and 24, 1916, between the directors of the three Scandinavian banks of issue, the Norwegian and Danish National Banks declared that they would act in good faith toward the Swedish "gold blockade" and not make use of previous agreements between the banks to handicap it.

Outside the small circle of economists the people in Norway were not, to begin with, inclined to accept the idea of a gold blockade. But, at the same time, they feared that if Norway did not follow Sweden's example our krone would acquire a much lower international value than the Swedish. Business men were, indeed, surprised that anyone could dream of refusing to accept gold, which certainly was "the most valuable of all commodities." But in answer to this belief it was possible to reply that the gold blockade did not contain any prohibition against buying gold; it did away only with the obligation to buy it at a fixed price; it could even be said that the gold blockade would make it possible for the bank of issue to buy gold for a smaller amount in paper kroner than before, in other words more cheaply. So far as the directors of the Norges Bank were concerned, originally they took the same attitude as the public. But as the influx of gold continued, on March 30 the board of directors sent a communication to the Government to say that the Bank itself ought to be permitted to decide "how great the augmentation of the gold reserve should be." The result of this communication was a law passed on April 15, 1916, which inaugurated the gold blockade in the same shape as it had taken in Sweden.

The directors of the Norges Bank were now, theoretically, in a position to keep the influx of gold from bringing about inflation of

the Norwegian krone. They had, however, to remember the fact that the refusal of foreign gold would have the effect of increasing the external value of the krone still further. In each single instance they, therefore, had the choice between continued inflation or a continued increase in the external value of the krone, if they did not take steps to start a Norwegian contra-demand for foreign currency. But the latter course would have had all the inducements. Norway had an unfavorable capital balance abroad. Her State loans had, almost without exception, been raised there, and her bonds were chiefly in foreign hands. A systematic buying back of Norwegian State bonds and other debentures would undoubtedly have been the most correct economic policy to adopt. To some extent private Norwegian capitalists followed this course. But the board of the Norges Bank did not endeavor to organize such repurchases, and the Minister of Finance was blind to the fact that the increasing State revenues in 1916 would here have found their most advantageous use.

The Board of the Norges Bank did not seem at all to have realized that Norway no longer had any gold standard, but a "free currency," a purely *nominal standard*, and that they themselves no longer were only the directors of a private bank exercising its privileges to the common profit of their bank and their country. They were also a public authority which daily fixed the value of the country's legal tender. Ignorant of their highest duties as they were, they based their policy, to all intents and purposes, on the principle of private banking.

This was particularly apparent in their discount policy. In the gold standard period the Board of Directors had always been in the position, without hurting the public interests, of being able to consider the balance sheet of the Norges Bank at a given moment as an adequate basis for an estimate of the desirable bank rate. Under the nominal standard this criterion was no longer sufficient. It could quite easily happen that even if the krone was high and there existed a surplus of capital in the market, a high bank rate would be best. Such a situation had actually occurred in 1915. The strong demand for Norwegian kroner on exchanges forced up both the krone and the volume of notes at the same time. This means that a momentary heavy surplus in the balance of payments resulted in a richer capital market in Norway than was desirable when the level of prices and the state of production were taken into account. In

these circumstances a high rate of discount would have been a warning to the banks to take every precaution in the disposition of the temporarily abundant capital funds, and a positive checking of the too numerous applications for loans. The board of directors of the Norges Bank, however, simply thought that when the influx of capital was so strong it must, from the viewpoint of private banking, be the right thing to keep the bank rate low. Their discount policy throughout the War was in accordance with this primitive and purely quantitative estimation of the principles of discount policy. The bank rate, which from August 3 to August 19, 1914, had been 6½ per cent, on August 20 was reduced to 5½, and on May 26, 1915, to 5. From December 13, 1915, to May 10, 1916, it was again increased to 5½ per cent. But there then followed remarkable reductions in the bank rates. On May 11, 1916, discount was reduced to 5, and on May 29 even to 4½. On this low level it remained until October 18, 1916. The only country of commercial importance which at that time had a lower bank rate than Norway was the United States.

This discount policy clearly favored speculation in shares, and the starting of new and often not well founded enterprises.

In the later war period the Norges Bank maintained a somewhat higher rate, thus from November 9 to December 12, 1917, it was 5½ per cent; from December 13, 1917, to May 8, 1919, 6 per cent; and from May 9 to December 17, 1919, 5½.

The fact that the Norges Bank, to such an extent, based its policy on the principles of private banking ought to have prompted the state authorities to exercise careful surveillance to see that the Bank did not abuse its position. Exactly the opposite was done. As mentioned in the second chapter (pp. 295–296) the Government, by a legal amendment of August 18, 1914, was given the power to reduce the extraordinary royalty which the Norges Bank was to pay on exceeding its limit of issue, and from August 19, 1914, it was reduced to "2 per cent below the bank rate in force." Inflation was thus initiated by the State.

But this was not all. In 1916, while the influx of gold was so great that the Norges Bank, within the limits of the law, could expand its circulation of notes continually, the Minister of Finance induced the Storthing to pass a law (July 21, 1916) augmenting the amount of notes which the Norges Bank had a right to issue against securities

from kr. 45,000,000 to kr. 70,000,000. In this way the State may be said to have advised the Norges Bank to carry on an inflation policy. It is not to be wondered that the board of the Bank very soon after gave up all thought of doing anything to check the expansion of notes. In the course of 1916 its circulation increased gradually and steadily from kr. 152,140,000 at the end of January to kr. 251,450,000 at the end of December.

In this field, too, it was the Fish Agreement which carried with it the most fateful consequences. First, in August, 1916, the Government forced the Norges Bank to accept, at the old legal price of gold, £500,000 in bullion in payment for a number of previous fish purchases; the corresponding sum was issued in new notes. Second, the Government induced the Norges Bank to make advances on current account for the British Government, in order to finance the purchases which took place in accordance with the Fish Agreement. These advances, as per July 1, 1918, rose to the sum of kr. 151,000,000. An examination of the successive balance sheets of the Norges Bank shows that no small part of this loan was issued in new paper money. The financing of a loan operation with this object would, indeed, have been a matter for the private banks, which in 1916, as a matter of fact, had a superfluity of means at their disposal. That the Government nevertheless left the affair to the Norges Bank proves its complete lack of understanding of the connection between banking operations and money policy. In the third place, the credit for the fish purchases drew with it loans to other foreign countries. When the Germans learned of the transaction they, too, demanded permission to obtain a loan from the Norges Bank. Besides the fish loan the Norges Bank was obliged to lend in all kr. 64,000,000 to foreign countries during the War, each of these loans having some effect upon the issuing of bank notes. The Government ought to have allowed private banks to negotiate all loans of this nature.

The Government's own demands were another strain on the Norges Bank. In spite of the huge revenues of the State during the War the account of the Ministry of Finance was continually overdrawn. This was a consequence of the deplorable way in which the financing of the emergency institutions had been arranged. The Norges Bank's note circulation, which at the end of July, 1914, had been kr. 123,700,000 was, at the end of 1915, kr. 162,200,000; at

the end of December, 1916, kr. 215,500,000; at the end of 1917, kr. 326,300,000; and at the end of 1918, kr. 436,200,000. The maximum was reached in December, 1920, with kr. 482,600,000.

This immense increase in the circulation of paper money naturally could not have taken place if the Norges Bank had not, time after time, exceeded its maximum right of issue by large amounts. According to the weekly report for December 23, 1918, the excess figure was then kr. 196,400,000. By a revision of the law in 1920 the right to issue notes against securities was increased from 70 to 250 million kroner. At the same time it was provided that any notes issued in excess of that amount were to be covered by gold coin or gold bullion in the vaults, the Bank thus losing its right to issue notes in part on its gold abroad.

Hand in hand with the inflation of the krone, wholesale prices rose continually during the War. With prices from December, 1913, to June, 1914, as a base, the index made by the Oekonomisk Revue gives us for December, 1914, a level of 115, for December, 1915, 159, for December, 1916, 233, for December, 1917, 341, and for December, 1918, 377. The maximum was reached in September, 1920, with 425. The cost of living slowly followed suit. The official index, using July, 1914, as a base, gave for December, 1917, 225, and was, at the end of the War, 260; the high point in the cost of living came in November and December, 1920, with 335.

It is clear that these developments were, to a great extent, bound to affect the activity of the banks. The war years also brought a credit inflation. The following table taken from the statistics of the private banks between 1913 and 1919 gives figures which are most characteristic. All sums are in millions of kroner.

	Number of private banks	*Paid-up share capital*	*Deposits*	*Loans on current credit*
Dec. 31, 1913	116	70	592	323
1914	119	76	630	349
1915	122	83	855	506
1916	138	173	1,441	1,096
1917	160	314	2,200	1,794
1918	193	510	2,720	2,437
1919	195	518	2,972	2,744

The Savings Banks deposits also increased greatly. This appears from the following figures, in millions.

Savings Banks Deposits, 1914-1919.

Dec. 31, 1914	636	Dec. 31, 1917	1,244
1915	723	1918	1,566
1916	952	1919	1,838

Naturally, such great increases in deposits and capital in the course of a few years confronted the controllers of the banks with the greatest difficulties. The new and enormous deposits had to be invested in order to yield interest. This was at a juncture when it was difficult, if not impossible, to procure the necessary raw materials and machinery for new factories and workshops, when normal trade was steadily dwindling on account of restrictions, and when temporary enterprises, set going with the aim of making the most of the war cycle itself, were attended by very great risks. The last resort seemed to be investments abroad. But, so long as the upshot of the War was doubtful, there was a risk in taking this course. Capital which in those years was invested in Germany and Russia was, later, almost completely lost.

Under these circumstances it was only natural that the banks loaned increasing amounts for the speculative purchase of stocks. To a growing extent, even stocks bought with loans were given as sole security.

It was particularly a question of speculation in shipping stocks. At first, too, the prospects in that field were excellent, for Norwegian shipping stocks, in the months before the outbreak of the War, were very low in relation to the dividends paid in recent years. But after a time the purchase of such stocks became growingly dangerous. Approaching increases in freights were discounted far in advance. Pools were organized by speculators who began to boom certain stocks when there was no real reason for a rise in their market value. In 1917 and 1918 the Norwegian stock market by degrees developed all the evils which usually are connected with excessive speculation on the Stock Exchange. Inexperienced speculators were continually being drawn in, and when the turning point came it was not, by any means, only the more or less professional speculators who suffered, but all classes of the population.

To illustrate the movements of the Stock Exchange in the years of the War an index for stocks and another for bonds have been worked out in detail.[1] They have been carried up to and include

[1] See Norwegian edition.

December, 1926. Both indexes were constructed with regard to the importance each individual group of stocks had attained in the capital market. The index of stocks is based upon quotations in Christiania—later, Oslo—for 101 issues, viz., industrial stocks, 36; shipping, 29; banks, 11; insurance, 14; whaling, 6; transport, 3; hotels, 1; and newspapers, 1—the last five being grouped as "sundries." The index for bonds is based upon the quotations for 37 issues. Of these there were 13 series of municipal bonds, 3 of industrial bonds, 9 of mortgage bonds, and 12 of state bonds.

While the bond index, as might be expected, shows low figures for the war years, the share index depicts a typical boom. The high point for the different groups, however, occurs fairly early in the period under examination. The whaling stocks culminated in August and September, 1916, with an index number of 441.7; the stocks in the "sundries" group in April, 1917, at 123; the bank stocks in October, 1917, at 126.2; the industrials in March, 1918, at 193.5; the shipping stocks in May, 1918, at 581.5; and the insurance group in September, 1918, at 112.6. The total index average reached high point in May, 1918, with 305.3.

Both the very uneven heights and the markedly differing points for the groups afford conclusions of interest. In the first place they clearly show that the course of the war cycle was not identical for all branches of trade and industry. In the second place they indicate that the decisive factor in the movements of the stock market was the indicated course of events in international politics and its presumable influences on the international price level. Currency inflation with its specific Norwegian rise in prices did not mean much to the speculators. They understood that when the War had ended values would decline. They were not even impressed by that strange economic development commonly called "the great post-war boom." In the months when the Norges Bank experienced the greatest inflation of the krone and the budget was at its highest, the Stock Exchange entered upon a period of decline and depression.

The fact that throughout the War shipping stocks took the lead in speculation was due to the circumstance that the freight cycle showed the most marked upward movements. As the details of these developments will be found in Chapter VII we shall here merely stress the national importance of shipping profits during the War by comparing the gross freight revenues from foreign trade with

the international balance of trade. An examination of the period from 1895 up to the outbreak of the War gives the result that in this span of years there is almost an equivalence between the deficit in the balance of trade and the total gross freights. For the war years, on the contrary, the figures are as follows. All sums are in thousands of kroner.

	Imports	*Exports*	*Deficit in balance of trade*	*Gross foreign freights*
1914	567,300	410,000	157,300	211,500
1915	868,000	676,700	192,200	474,500
1916	1,353,700	988,300	365,400	1,062,700
1917	1,661,300	791,400	869,900	1,107,200
1918	1,252,600	755,000	497,500	904,900

The great revenues from the shipping trade in the years of the War were, however, earned by a steadily diminishing number of ships. Shipowners whose vessels were torpedoed certainly received enormous insurance sums; but, according to the Norwegian taxation laws, the owners had to pay an income tax and, later, also a war-profit tax on the insurance payment, provided it exceeded the amount at which the value of the vessel was entered in the last balance sheet of the owner. As ships were insured at full repurchase value, the above tax regulation stood directly in the way of the replacement of vessels sunk by the Germans. The unreasonableness of such a condition was generally acknowledged, and on July 6, 1917, the Storthing provided that the difference mentioned should be free of tax if the shipowner gave a binding promise to procure new tonnage at latest by the end of 1921; and the insurance indemnity must not, in this case, "be paid out to the shareholders but remain with the shipping company."

It was not easy to place shipbuilding contracts during the War. The Norwegian, Swedish, and Danish shipyards suffered from a lack of raw materials, the Dutch yards were largely engaged in building for the belligerent powers, and the British with building for their own requirements. Until America entered the War most of the new orders from Norway were, therefore, placed in the United States; and from July 1, 1915, to July 1, 1917, they amounted to between 700,000 and 1,000,000 tons. It is an acknowledged fact that these Norwegian orders were a great stimulus to American shipbuilding, and led to the construction of new yards, which came to

be of high importance when the United States itself entered the War. Then, too, forty-two Norwegian ships were requisitioned; and a controversy over the payment for them arose. The Norwegian owners divided into two groups. In one Mr. Emil Stray of Christiansand was the leading spirit, and represented the owners of twenty-seven new ships. They claimed total payments of over $50,000,000. But, to avoid a lawsuit and obtain a quick settlement, on June 3, 1919, they accepted a compromise which gave them some $34,500,000. The other group, at first represented by Mr. Christoffer Hannevig and later by Mr. Trygve Sagen, did not, on the contrary, manage to come to an arrangement. The final demand of this group was put at $13,223,185, while the Americans were willing to pay only $2,679,220. The matter ultimately was left to be dealt with diplomatically; and in an agreement which, on July 27, 1921, was ratified by the United States, it was submitted to an arbitral tribunal according to The Hague Convention. The two Governments acted as the formal parties. The American arbitrator was Mr. Chandler P. Anderson of New York, the Norwegian, Mr. Vogt, Norway's representative in London. In the absence of Professor Max Huber, incapacitated by illness, Dr. James Vallotton of Lausanne, acted as President of the Tribunal. The decision was that the United States should pay Norway $11,995,000 less an American counterclaim for $22,800. The American arbitrator, who refused to be present at the announcement of the award, protested against it in a note appended to the decision and reserved all the rights of the United States. But the American authorities decided that the amount should be paid.

When, in November, 1915, Great Britain listed whale oil as contraband, the whaling industry fell completely under British control. Later on Great Britain even monopolized purchases, and prices were fixed by an official commission, though negotiations with the Norwegian Whalers' Association took place before decisions were made. Not a few companies nourished the fear that under these conditions profits would be small, and put a great part of their tonnage into the regular carrying trade. The whaling fleet also suffered by the submarines. In 1916 it experienced a loss of not less than ninety-three vessels.

However, events proved that the prices obtained in Great Britain meant even excessive profits. During the War the whaling companies were, therefore, in a position to pay very high dividends. Taking the

companies which are included in our stock index for the years 1915-1917, sums equal to no less than an average of 84.6 per cent of the invested capital were paid in dividends, and 1916-1917, 61.3 per cent. The average dividend for 1917-1918 was as low as 9.5. From 1918-1919 it again rose to 76.2.

The industrial world in the war years experienced very mixed business conditions. This was, as we have several times made clear, due to its dependence on the country's foreign policy.

Timber exports were always in great difficulties because of contraband regulations. In addition, the distant markets gradually fell away, being unable to meet the high freight rates. On the other hand, the orders in Great Britain greatly increased, and up to the end of 1917 in particular, pit-prop exports were in great demand. After July 22, 1917, however, the British Government acted as sole buyers, and the exporters could no longer benefit by the situation to the same degree as before.

For mechanical pulp export conditions were especially favorable at the beginning of the War. The unrestricted U-boat warfare, however, entirely stopped exports to France, and in Great Britain a prohibition was imposed upon importing more than one-half of the quantity imported in 1916.

The pulp mills had a record year in 1916. One of the chief reasons was Sweden's export prohibition. Thanks to that, the Norwegian manufacturers succeeded, in 1916, in getting about kr. 200 more per ton than their Swedish colleagues. In 1917 the Swedish prohibition was abolished and prices fell accordingly. In the middle of November, 1917, Great Britain, however, imposed a prohibition on imports of chemical and mechanical pulp from Sweden, and this again changed the situation in Norway's favor.

Paper exports in war-times also had vicissitudes. In 1917, of the country's eighty-eight paper machines an average of only between thirty and forty were running. When the Government threatened to propose to the Storthing the imposing of an export tax, the paper mills agreed, in 1916 and 1917, to deliver paper to the home market at preferential prices. A law of July 18, 1917, also empowered the Government to order the country's paper mills "to deliver for home consumption, and at any time, the necessary paper for newspapers, school and educational use, at prices fixed by the Government." This levy was prorated among the different mills and should, therefore, be regarded as a special tax.

The greatest event in the history of the Norwegian industries during the War was the purchase of the Borregaard Company.

In the fall of 1917 the attorney, Mr. Hjalmar Wessel, secured the chance to purchase the majority of the stock of the British company—The Kellner-Partington Paper Pulp Company Limited. With the financial support of the Norges Bank and the Centralbanken for Norge, the stock was bought for £7,000,000, a sum which, according to the rate of exchange at that time, was equivalent to about kr. 100,000,000. At a business meeting called at Sarpsborg on April 15, 1918, to take over these interests the Borregaard Company was founded, a joint-stock company with a capital of kr. 50,000,000, which in 1919 was raised to kr. 75,000,000. This corporation owned or controlled, at its start, a plant representing one-fifth of the producing power of the Norwegian pulp and paper trade. Furthermore, it had big plants in Sweden and Austria. In the bleached-pulp branch it was a leading factor in world production.

A considerable redemption of shares took place in another of Norway's leading industries, namely, the Norsk Hydro-elektrisk Kvaelstofaktieselskab, or the Norwegian Hydro-electric Company. This industry besides manufacturing fertilizers during the war years, also produced several of the raw materials used in the manufacture of munitions.

In the case of a large number of the Norwegian industries, in the last two years of the War they had to restrict their working hours on account of the lack of raw materials. But the goods produced were sold at high prices, so profits were, on an average, good, even if less than those realized in the shipping trade.

As regards agriculture, the War's most direct and weighty effects on it have been dealt with in previous chapters. Here we shall only add that though the export prohibitions, to a high degree, checked the rise in prices on farming products, at least some of them reached the top prices of the war cycle. The maximum increase was perhaps represented by the prices brought by live stock. The following table gives average prices for full-grown animals, from 1916 to 1918, in kroner.

	Draft horses	*Oxen*	*Cows*	*Sheep*	*Goats*	*Swine*
1916	590	187	141	22	16	106
1917	1,681	642	536	82	59	411
1918	2,050	764	669	102	74	502

The prices of country estates also rose greatly. On an average they increased, from 1914 to 1918, by more than 200 per cent.

However, price movements and other developments of the war cycle affected the deeper lying factors of agricultural production less than was anticipated. In Chapter IX this has already been shown to be true for meadow lands. The statistics for live stock tell the same story.

Number of Live Stock on Norwegian Farms, 1917-1923.

	Horses	*Cattle*	*Sheep*	*Goats*	*Pigs*
June 30, 1917	202,365	1,149,526	1,294,906	238,641	237,921
June 20, 1918	210,778	1,045,938	1,400,034	235,291	207,119
June 20, 1923	193,157	1,131,120	1,525,281	241,753	237,302

To illustrate the effects of the war cycle upon wages we have worked out the following index:

Wages in Norway, 1914-1926 (Index Numbers).

(Base: 1914 = 100.)

Year	*Agriculture and forestry*	*Industries*[3]	*Public utilities*	*In public employment*[4]	*General index*
Weight in the general index	10	20	3	3	
1914	(100)[2]	100	100	100	100
1915	108	112	(110)	(100)	109
1916	148	125	(125)	(110)	129
1917	213	170	150	140	177
1918	288	253	222	197	254
1919	337	304	310	254	308
1920	382	391	336	283	372
1921	303	403	345	283	358
1922	242	326	271	267	292
1923	231	284	254	224	261
1924	246	306	262	213	276
1925	227	329	274	221	285
1926	199	294	(242)	213	255

The table shows that the rise in wages during the War and the decline afterward was much more marked in agriculture and for-

[2] The figures in parentheses are estimates.

[3] These figures are derived from the statistics of the Employers' Association.

[4] These figures are calculated from the official statistics.

estry than in the industries. At first glance this looks rather paradoxical. The explanation must be found in the relative powers of the workers. The industrial laborer had, at the outbreak of the War, already reached a higher level of wages than his comrade in agriculture and forestry, and simultaneously the tariff checked a further rise in his wages. During the depression that same system of duties contributed to maintain his higher level.

We may state that all classes in Norway in one way or other profited by the War, if an increase in income and earnings can be taken as indicative of this. But in those years when our population was rich, measured in money, we had little chance to enjoy our wealth, it being impossible to purchase even necessaries. And the basis of the prosperity was not any new development of the country's resources but exclusively changes in values.

Owing to the scarcity of goods in the world market the commodities and services rendered by Norwegians were paid for more highly than formerly. And, thanks to the superfluity of paper money in Norway, all domestic values were scaled up in price. When the War ended and the inflation was halted, the base of this transitory prosperity gave way; while the people, being under the illusion of having become much richer, met the future with greater claims than ever before. Under this discrepancy between means and needs the country passed into the post-war period.

The first foreboding of the difficulties to come appeared in the changes on the exchange market. The bottom in the rates for foreign exchange was reached on November 3, 1917, when sterling was quoted at kr. 12.90 and the dollar at 2.79. At the end of the War, on November 11, 1918, sterling was at kr. 17.38 and the dollar at 3.65. The dollar passed the old gold parity on March 15, 1919. Sterling was, during May, below the old parity, and reached a new low level on September 18, 1919, with kr. 17.65. In 1920 the rates rose enormously. Sterling on September 23 went as high as kr. 26.60, and the dollar on November 13 to kr. 7.70. This huge depreciation in the external value of the krone suddenly changed all economic relations in the country, making monetary problems dominant in the difficult years that followed.

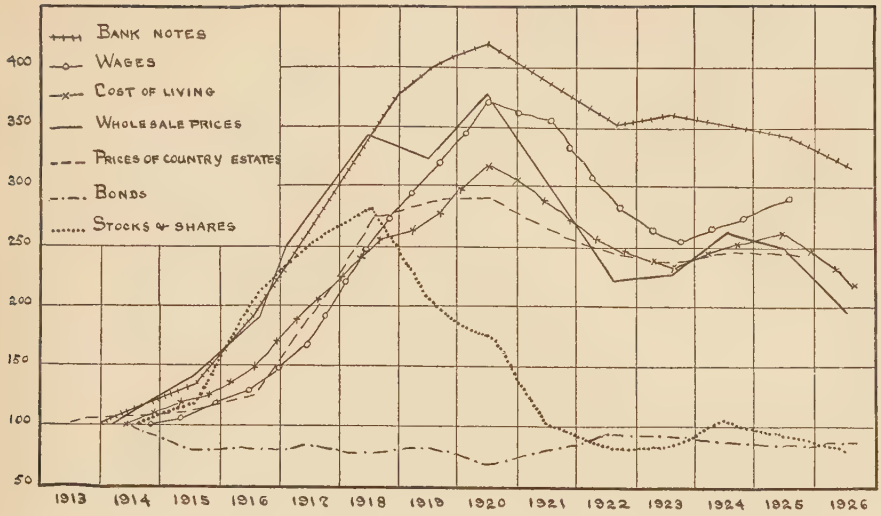


Diagram I

Index numbers of monetary values and circulation of bank notes in Norway, according to annual mid-year averages.[1]

[1] Sources: wholesale prices, *Ökenomisk Revue;* prices of country estates and cost of living from the Central Statistical Bureau. The other indexes are original with this volume.

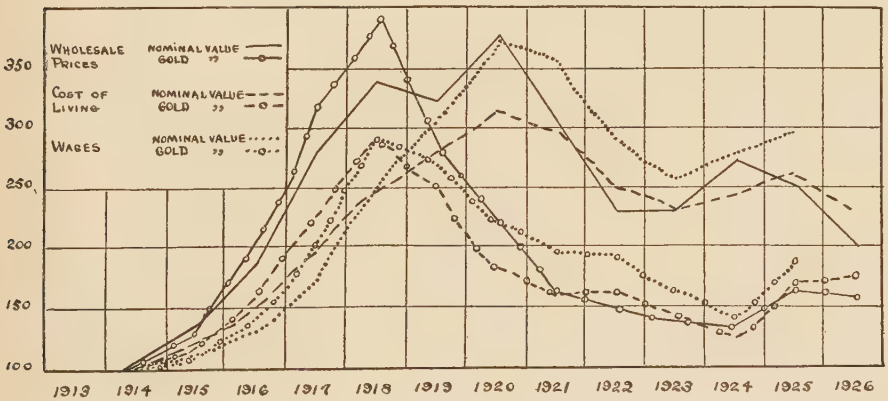


Diagram II

Norwegian monetary values (nominal and gold[1]*) 1913 to 1926 according to annual mid-year averages,*[2] *in index numbers.*

[1] Gold values are calculated according to dollar equivalents.

[2] Sources: wholesale prices, *Ökenomisk Revue;* prices of country estates and cost of living, from the Central Statistical Bureau. The other indexes are original with this volume.

III

DENMARK IN THE GREAT WAR

BY EINAR COHN

ABRIDGED FROM THE DANISH

BY K. VEDEL-PETERSEN

CHAPTER I

INTRODUCTION

The economic history of Denmark during the Great War is mainly bound up with foreign political events. The dangerous position of the country, just between two belligerent groups of Powers, caused economic development and the gradual interference of the Government, as the War proceeded, to be largely governed, on the one hand, by the economic conditions which the belligerent nations found it in their interest to offer us, and, on the other, by the fact that absolute neutrality, which the whole people considered the only possible policy, could, also and strictly, be maintained on an economic basis. The more so as our position, not only in a military sense, but also financially, was exceedingly vulnerable because of the fact that Danish trade, more than that of most other countries, is dependent upon imports of raw and auxiliary materials for the agricultural and other industries, and upon the export of improved agricultural products necessary for the payment of these imports being maintained to the widest possible extent.

The country's deficiency in raw materials for its industries, and its total lack of fuels, such as coal and oil, and of hydraulic power, make it evident that its industries depend upon normal imports of raw materials and fuels. On the other hand, the export of industrial goods plays a comparatively inferior part, because our industries, first and foremost, look for their market within the country. The exports of agricultural products are, on the other hand, of immense importance for the economic condition of the country, as about 85 per cent of the total returns of Denmark's exports is obtained through the sale of agricultural produce, and especially of produce from domestic animals (butter, bacon, eggs).

These important exports of agricultural produce are, however, to a great extent, conditional upon imports of foreign—nitrogenous—fodders, especially fodder cakes and corn to supplement the home-grown fodder crops (mainly beets). On the import side of the balance of trade we, therefore, find fodders, seed, and fertilizers, representing in amount about one-fourth of the total value of imports, while the imported fodders represent a quantity correspond-

ing to about 20 per cent of the total harvest yield, calculated according to fodder value. Thus, while Denmark is, indeed, an agricultural country, her agriculture has been industrialized to a great extent; which means that production is continued in an improved cultivation, in which the predominant part of the crops, together with considerable quantities of imported fodders, are used as raw materials for stock raising. Since the eighties, when Danish agriculture, under the pressure of American competition in the grain market, changed from a breadstuff-producing country to the production of animal foodstuffs, especially butter and bacon, the country has, as a matter of fact, not been self-sufficient in breadstuffs and fodder.

The following account of the economic conditions of this country during the War and during the first years after the War is, therefore, built on the changes in international law and on the foreign demands and agreements which were necessitated by the development of events. It has seemed to me that this was the only manner in which events could be described in their proper connection, and the reader must not be led astray by the fact that many of the arrangements made, either public or—to avoid a public discussion regarding their purpose or justification—secret, appear as if they concerned only the internal condition of the country. They were almost always rooted in foreign political events.

In accordance with this point of view the account has been divided into six chapters, of which the Introduction is the first. The second deals with the war period up to the tightening of the economic war against the Central Powers, brought about by the British Order in Council of March 11, 1915. The next chapter deals with events up to February 1, 1917, the date on which the German North Sea blockade came into force. The fourth chapter deals with events up to the conclusion of the armistice, while the fifth treats of the years after the War, as a rule up to the change in trade conditions in 1920. This draws a natural line of demarcation, so much the more since the removal of the Government's war-time restrictions in a number of cases had been concluded at the end of 1920. Finally, the sixth chapter contains various summaries and tables which it would be of slight use to give piecemeal in the preceding chapters; and, also, a more general economic description, to which are attached various comments based on the experience of the author in the course

of his work in connection with the rationing of foodstuffs during the War.

It is, however, only after much consideration and with great misgivings that, for the reasons stated, I have felt that I ought to divide my monograph in this manner, because, so long as the diplomatic history is not available, it is always to be feared that the knowledge obtained—even from a great number of sources—may prove incomplete; and the support which is given by a thorough documentation is lacking. At all events, it has been of very great assistance that the Foreign Office has permitted me to make myself acquainted with the Grey Books published during the War, and containing the confidential reports made by the Foreign Office to the Rigsdag, with the pertinent documents regarding Denmark's trade and political situation.

In accordance with the general scheme for this work, of which the present monograph forms a part, I have endeavored to give as much information as possible, even if it has been impossible to give any text-book account in the space at my disposal. I have thus thought it possible to omit tabular summaries, which may be found in a convenient form in the publications of official statistics, and have only included such tables as seem necessary for a full understanding of the text. The account deals, as a consequence of the point of view on which it is based, especially with economics and supplies, together with financial conditions, while public finances and social conditions have been dealt with only in their broad features.

CHAPTER II

FROM THE OUTBREAK OF THE WAR TO MARCH, 1915

1. The Political Background.

International Law.

The Declaration of London of 1909 was ratified only by the United States, but it was signed not only by representatives of that country, as also of France, Italy, Japan, Holland, Russia, Spain, Great Britain, Germany, and Austria-Hungary; and the conference of these powers, at which this declaration was agreed to, had been called at the request of Great Britain. It was, therefore, to be expected that this constitution for naval warfare would be the law in force during the Great War; the lists of contraband issued by Great Britain on August 4, 1914, were also in close accordance with the schedules of the Declaration of London. But even the Order in Council of August 20, in which the British Government expressed a general adhesion to the Declaration, contained essential modifications, the most important of which was that which constituted the first breach in the principle establishing the difference between absolute and conditional contraband, by providing that it should be possible to seize conditional contraband, when the goods were destined for the enemy, even if they were to be discharged in an intermediate neutral port. This was contrary to Section 35 of the Declaration of London, in which it is expressly stated that conditional contraband can be seized only on ships en route to hostile territory or to territory occupied by the enemy, or to his armed forces, and which are not planning to discharge the goods in an intermediate neutral port.

Simultaneously with the beginning of the wiping out of differences in the treatment of absolute and conditional contraband, a number of free commodities were declared to be conditional contraband, and a number of conditional contraband commodities were made absolute contraband. Thus, on September 21, Great Britain transferred various goods from the "free list" to the list of conditional contraband, and on October 29 several of these were transferred to the list of absolute contraband, while the list of conditional

contraband was extended at the same time. On the date last mentioned a new Order in Council was issued, according to which, in spite of Section 35 of the Declaration of London, conditional contraband might be seized on board vessels bound for a neutral port if the goods were consigned to order, or if the ship's papers did not state the name of the consignee, or if it was known that he lived in an enemy territory or in a territory occupied by the enemy. Furthermore, the onus of proving that the cargo was not destined for the enemy was to lie with the consignee, whereby the provision of the Declaration that the ship's papers should be sufficient evidence was abolished. Besides, it was provided that if the British Government realized that a hostile country received necessary supplies for its armed forces from or through any neutral country, which in that case was acting as a hostile base of supplies, it might resolve that ships bound for the neutral country concerned, carrying conditional contraband, should be seized regardless of Section 35 of the Declaration.

To add to this, in order to facilitate and strengthen the British control of neutral shipping, the British Admiralty on November 2 issued an order which, after referring to the German mine fields, declared that the whole North Sea must be considered a military zone and, as such, very dangerous to merchant vessels, which were, therefore, ordered not to proceed north of Scotland but along the east coast of England and through the Channel. It was, especially, this ordinance which gave rise to the joint Scandinavian note of protest of November 13.

This was, broadly, the state of affairs, so far as Great Britain was concerned, until the Order in Council of March 11, 1915, attempted to debar Germany from obtaining any kind of supplies, and thereby became the basis of the war of starvation against the Central Powers.

Germany, on her part, made several additions to the lists of contraband, and like Great Britain she soon commenced to take neutral ships into port for examination, whereas this examination, according to existing rules, should have been made on the open sea. It was, however, the note from the German Admiralty of February 4, 1915, which first made clear a radical change in Germany's attitude to international law, as this note (after referring to the order of the British Admiralty of November 2) declared the waters around Great

Britain and Ireland, inclusive of the Channel, a military area, in which any hostile merchant vessel would be destroyed after February 18. The note further provided that "neutral vessels in the war zone are also exposed to danger, as, on account of the abuses of neutral flags which have occurred at the instigation of the British Government, and on account of the accidents of naval warfare, it is not always possible to prevent attacks aimed at enemy ships from extending to neutral ships." The U-boat blockade, thus established, was in violation of international law, as it made it possible to sink any ship flying a hostile flag, and thereby took military measures against non-combatants, whereas the Declaration of Paris of 1856, provided that neutral goods, apart from contraband of war, cannot be seized (and still less be sunk) under a hostile flag, if it is not a case of blockade running. In order to make a blockade binding, according to international law, it must be effective; but there was no question of Germany's blockading the coasts of the Allies, and only in part of England's being able to blockade Germany. Thus this fundamental rule of the laws of naval warfare was broken by both parties. But Great Britain seized upon the note of February 4 as an opportunity to counteract the German U-boat blockade by a "distance-blockade," which was established on March 11; and at the outbreak of the War both Great Britain and Germany had immediately laid mines without giving the required notice to shipping—both in enemy waters and in the open sea—on a scale which had not been seen in any previous war.

It soon became clear to neutrals that the protection international law afforded them by virtue of their neutrality was of small value. Some neutrals for a long time maintained their protests against the constant and steadily increasing violations of international law, while others, and perhaps Denmark above all, sought by a constant policy of negotiations to secure the best possible conditions for themselves, and succeeded in finding a *modus vivendi* with both belligerent groups.

The Neutrality Declaration.

The principal lines of the foreign policy of Denmark were established on August 1, 1914, in a Royal Message which we reprint *in extenso:*

Under the serious conditions which have arisen for our country

through the fatal events of the last few days, we feel impelled to express ourselves to our people as follows:

At no time more than the present has there ever been demanded a greater sense of responsibility, both in the individual and in the whole nation.

Our country stands in friendly relations to all nations. We feel confident that the strict and equal neutrality which has always been maintained as the foreign policy of our country, and which now also will be unhesitatingly maintained, will be respected by all.

This is the common view of the Government and of all responsible and sensible people, and we trust that no one by an untimely display of feelings, by rash demonstrations, or in any manner will violate the dignity and peace which it is of vital importance to maintain in order to create confidence in the attitude of our country. Everyone now has his responsibility and his duty. We feel convinced that the seriousness of the moment will be reflected in the actions of all Danish men and women.

God save our country,
Christian R.

Signed,
Zahle.

At the same time the Government made a statement in both Houses, which contained the following:

The Cabinet, which has been called to its responsible position to carry out a definite task in our internal policy, knows itself to be in harmony with the Rigsdag at this present moment when a threatening world crisis has filled all minds with anxiety, and when it declares that the only policy of Denmark under the prevailing circumstances, and in any future contingency, is to observe the strictest possible neutrality.

The Political Situation in the Country.

In this statement the Government repeated, and in even more emphatic terms, the declaration of neutrality set forth in the Royal Message, and also pointed to its home policy, namely, the solution of the constitutional problem. This was the natural thing to do, because the Zahle Government, which had come into power on June 21, 1913, and which was a part of the Radical Left, was a minority government whose party comprised only one-fourth of the 114 members of the Folketing. The distribution of the parties was: Radical Left, 31 (including 4 members who were merely in the same general

group); Social Democrats, 32; Left, 41; and Conservatives, 8; or a total of 112, with two members deceased.

The Radical Left and the Social Democrats who supported it politically had their supporters among small holders, minor officials, and the working classes. Of the two opposing parties, the Left had its strength among the farmers, and the Conservatives among the owners of the large estates and among the manufacturers and tradesmen in the towns. It was, however, as the War proceeded and necessitated government interference with economic life that this political distribution between consumers and producers became of importance for home politics. On the other hand, in foreign policy the historic hostility between the Government and the Opposition attained this significance, especially with the Conservatives: The Government, in quarters outside political circles, was suspected of entertaining sympathy for Germany, or at least it found it very difficult to make people understand that neutrality necessitated a uniform treatment of the Western Powers and the Central Powers, which was especially apparent in the question of the exports from this country to the two groups.

The Embargoes.

It was in no way a contravention of international law for the subjects of a neutral country to sell goods, even contraband, to a belligerent Power; and by an act of August 2, 1914, which prohibited any support being given to the belligerent Powers from Danish territory, the only prohibition was against providing their men-of-war with provisions and fuel. The aim of the embargoes which were issued in pursuance of the act of August 6 was, therefore, to protect the country's stocks of goods concerned. It very soon appeared, however—e.g., in the British embargo on coal to Denmark—that the condition for getting supplies of goods was an assurance to the effect that the goods would not be reëxported; and as regards Germany, dispensations from the numerous German embargoes could only be secured if we permitted the export to Germany of goods which she needed. As mentioned above, however, the principle of continuous voyage had been extended to conditional contraband, and it became necessary, in order to protect the shipping trade, to adopt the principle that no dispensation should be granted for contraband goods;

and when, in the middle of October, 1914, Great Britain took steps to stop the transshipment of contraband to Germany via neutral countries, the Danish Government declared itself willing to give the guarantee that contraband of war conveyed to this country should not be reëxported. The demand for a similar guarantee for goods which were not contraband of war had, however, to be rejected, because it was necessary that exports of such goods should take place to other neutral countries and, of course, also to the Central Powers, as otherwise this might have been construed as an unfriendly act toward them. Great Britain acknowledged the justness of this view, but in order to restrict the effects thereof the lists of contraband were constantly extended.

If Great Britain brought such heavy pressure to bear on the small neutral states bordering on Germany to prevent transshipments via these countries, a second reason was that it was easier in this indirect manner to prevent American exports to Germany than to attain this directly by opening negotiations with the United States, which maintained the legality of such trading, according to international law. That the Scandinavian countries in the above-mentioned Joint Note of November 13 had also pointed out a great number of cases in which international law had been violated (viz., by the laying of mines on the high seas; the restrictions on the freedom of the seas that lay in ordering neutral ships to follow certain routes and put in at certain ports; the alterations of contraband rules; the maintenance of the principle of continuous voyage; the examination of vessels, and seizures) had, of course, little power to improve these conditions. It had its greatest value in bringing home to the world the concord of the three Scandinavian countries. The same was the case with the meeting of the three Scandinavian kings held at Malmö on the eighteenth and nineteenth of December.

The Agreement of January, 1915.

In the beginning of December the British Government stated, however, that in accordance with the Order in Council of October 29, it contemplated considering Denmark a German base of supplies, and proposed that in this country, as the case had been in Holland, an association should be formed which, under government guarantee, should act as consignee of contraband goods supplied to the

home market. The Danish Government would not agree to such an arrangement, and after special negotiations in London succeeded in arriving at an agreement on January 9, 1915. The main difficulty was, of course, that Denmark could not meet the wishes of the Allies and reduce or prevent the sending of agricultural exports to Germany. For at the same time a far greater export to Great Britain of corresponding goods was taking place, with the tacit consent of Germany, as was proved later when German warships seized two of our export vessels, and these vessels were quickly released by the German authorities. For if Germany prevented the shipping of Danish agricultural exports to Great Britain, Great Britain would not continue to be interested in imports of oversea fodders to Denmark; and a consequent reduction in the products of Danish agriculture would simultaneously remove the possibility of a southward export of these supplies.

By the agreement of January 9, 1915, Great Britain was given a guarantee that the embargoes would be maintained, that dispensations would not be granted, even if supplies became abundant and there was no economic necessity for Denmark to retain her goods, and that the embargoes should also include alloys and semi-manufactured articles in order to prevent evasions, etc. The promises given in return by Great Britain, to the effect that ships for Danish ports would not be molested were, however, encumbered by several reservations; the Allies especially reserved to themselves the right to treat as suspicious all cargoes bound for Danish ports consisting of goods included in the contraband lists, if no embargo on such goods was issued by Denmark and, further, to detain goods consigned to Denmark when they, the Allies, had conclusive evidence of an intended hostile destination for such goods. This was the origin of the "black lists," as obviously the Allies considered a black-listed firm *eo ipso* an "enemy destination."

This agreement of January, 1915, which included only contraband goods transshipped via Denmark, and which was the extreme limit to which the Danish Government would go, because it was held that an extension of similar principles so as to include goods which were not contraband, would be to take an untenable attitude toward the other belligerent party. The agreement also remained in force in its entirety after the issuing of the Order in Council of March 11,

1915; but the desire of the Allies for a further guarantee soon led to the "Trade Agreements."

It must be added, however, that the German declaration of February 4, 1915, gave great anxiety to our exporters of agricultural produce to Great Britain, and had this effect: the Scandinavian countries opened negotiations looking to a possible convoying of merchant vessels. It proved, however, that such an arrangement was impracticable; and when the sides of Danish merchant ships had been painted with the name of their country and large national flags, and illuminated at night while crossing the North Sea, the sailings which took place resulted in only few torpedoings, evidently due to the carefulness of the Germany navy.

2. Government Assistance and Restrictions Imposed upon Trade.

The Outbreak of the War.

It is characteristic of Denmark's position and of the weight which, in view thereof, had to be attached to Great Britain's attitude, that the bill empowering the Government to prohibit exports and to regulate the prices of foodstuffs and other goods was not placed before the Rigsdag until August 6, when Great Britain had declared war on Germany. For, after Great Britain's declaration of war, it must be apparent that Denmark's political position between the two belligerents had, at best, been made extremely difficult, and that our imports and exports, which were vital to the country, must have seemed to be seriously threatened. Moreover, on the evening of August 5 a considerable military force was called up for service, apart from the armed forces which had already been called up during the preceding days; and the Government had closed, by mines, the Danish waterways leading to the Baltic Sea, "in order," as was stated in the official communication, "to avoid so far as possible having war operations extended to Danish waters, and to maintain communications between the various parts of Denmark." But this also meant that Denmark shut out Great Britain from the Baltic Sea; and we did not know how Great Britain would regard such a step.

But in the course of a few days it appeared that Denmark would not, at least immediately, be drawn into the War. Negotiations were entered upon with Danish seamen who had refused to sail without a

large increase in pay, including life insurance. Various vessels returned safely from Great Britain. And, as a resumption of navigation was absolutely necessary, sailings gradually returned to normal. On August 14 a strike on the colliers was also brought to an end.

War Insurance.

Navigation of the North Sea was, however, exceedingly dangerous; and, consequently, an arrangement of the question of marine insurance was one of the first problems dealt with by the Government. The "Extraordinary Royal Commission," appointed pursuant to the above-mentioned Act of August 7, opened negotiations with the coal importers, in part looking to a reduction of prices, and in part regarding a resumption of imports; and on August 11 the Commission issued a report to the effect that the four Danish marine insurance companies had agreed to write insurance covering war risks in the coal trade between the northeastern coast of England and Scotland and Danish ports, the companies themselves assuming one-quarter of such risks and the Government assuming three-quarters. The final arrangements were made in an act of September 10 providing for the insurance of Danish vessels against war risks, and in an act of September 24 providing for the similar insurance of goods. Two institutions were formed with the support of the Government and with the coöperation of Danish insurance companies. All registrable Danish vessels were to be insured by the Marine Insurance Institution on the payment of given premiums. The possible profits or deficits of the Institution were to be allotted to the vessels insured in proportion to the premiums paid—in such a manner, however, that 35 per cent of the possible deficit was to be covered by the Government and 15 per cent by the insurance companies, within certain fixed limits. In addition to the Government and the insurance companies a syndicate became a member of the Institution for the insurance of freights, so that the risks undertaken by the Institution were to be covered by the Government up to 35 per cent, by the insurance companies up to 20 per cent, and by the syndicate up to 45 per cent. Thereupon imports of coal were resumed; but in order to obtain an annulment of the British embargo on coal to Denmark the Government had to guarantee that the coal imported would not be re-exported. From that time supplies were normal for the remainder of the year.

Price Regulation.

While a reasonable regulation of the increase of the prices of coal and coke was carried through without great difficulties, the steps taken by the Government to secure the necessary supplies of rye and wheat, and especially to regulate the price of rye and wheat, met with firm opposition from the farmers. This must not, however, be taken to mean that the farmers were trying in any way to evade the instructions issued by the Government. Quite the opposite, the farmers showed considerable understanding and a ready willingness to assist in supplying the population of the towns with food. But it had the effect that the fixing of the prices for the goods required by the Government caused especially great difficulties, as the producers thought themselves entitled to exploit the prevailing conditions. Further, the Government used the general powers given to it by the Act of August 7, 1914, for the regulation of the price of food,—while the farmers desired, as was later done, that the Government should pass special grain acts. Almost from the first day of the War —and to an ever increasing extent—the political debates dealt with the application of this Act of August 7, which consisted of only the following clause:

> The Secretary of State for Home Affairs shall, until further notice, be empowered to make arrangements for the regulation of the prices of foodstuffs and commodities, and may, on behalf of the Government, take over, on payment in full, such foodstuffs and commodities as it is of importance to the community to have at its disposal. The price to be paid for goods thus taken over by the Government shall be fixed by Royal Commissions, the scope and composition of which shall be provided for by Royal Ordinance.

Wheat and Fodder.

The aforementioned difficulties in the navigation of the North Sea, the embargoes placed by the various countries, Great Britain's detention of cargoes destined for Denmark, and the losses of vessels caused by mines, resulted in an exceedingly great reduction in the imports of grain and fodders to this country during the first months after the outbreak of the War. Add to this that the crops of 1914 were very poor, as shown in the summary below, which also contains

information as to the estimated distribution of the consumption of rye and wheat:

Consumption of Rye and Wheat in Tons.

	Human consumption	*Used as fodder*	*Amount of crop* 1913	1914
Wheat	206,000	75,000	182,000	157,000
Rye	225,000	400,000	434,000	285,000
	431,000	475,000	616,000	442,000

Even a poor crop, like that of 1914, would ordinarily suffice to cover our consumption of breadstuffs. Other arrangements would then have to be made for live stock, as the crops of the country, first and foremost, must be available for the population; and this was the fundamental principle underlying the measures now adopted. But, as almost all home-grown rye, and much wheat, is normally used as fodder, a demand that the farmers give up this grain to the people was bound to be felt as a drastic interference with customary arrangements. This twofold use of grain—as a food for both human beings and cattle—reached an acute stage when the increase in the price of grain carried the price of bread to a height which necessitated the fixing of a maximum price for domestic rye and wheat. The Government thereby compelled many farmers to give up rye and wheat which was to have been used as fodder at a price at which other fodders could not be obtained. The Government then tried to remedy this by purchasing corn, to be given as compensation for the rye which had to be surrendered.

The General Embargo of August 6 prohibited the export from this country of fodders, wheat, potatoes, flour, and groats; and on August 28 the Government—on paying full compensation—took over the stocks of wheat in the capital. On September 1 these stocks were transferred to the municipality of Copenhagen. The price was fixed at kr. 16.15 per 100 kilos (128-130 Dutch pounds) for Danish wheat and at kr. 19.25—21.60 for American wheat. The wheat thus taken over compulsorily amounted to 11,000 tons.

During the winter months, from October to January, the Government succeeded in obtaining the release of about 125,000 tons of corn and other fodders which had been detained in Great Britain. But in addition to the corn bought by private persons the Govern-

ment also had obtained other considerable quantities, partly in exchange for rye and partly by direct sale. By these united efforts Denmark succeeded in importing quantities of corn and cotton-seed cake so large that the suspension of the import of Russian sunflower cake was not so keenly felt as would otherwise have been the case.

Thus the imports during the period from January to July, 1915, equaled the quantity of corn and was two-thirds of the quantity of oil cake imported during the whole of 1913. These large supplies had the effect that the slump in the prices of such commodities on the world market during February and March became rather more pronounced in this country than elsewhere.

Almost immediately after the outbreak of the War deliberations regarding the fixing of a maximum price for breadstuffs began, partly within the Royal Commission and partly by negotiations between the latter, the Home Office, and the great agricultural organizations. According to a proposal from this assembly the Home Secretary on September 25 provisionally prohibited the use of threshed rye and wheat as fodder, and in the same ordinance a prohibition was placed on the use of home-grown rye and wheat in the manufacture of spirits; exemptions might, however, be obtained for the use of home-grown rye for bread yeast. Through an order to the effect that contracts, etc., for the purchase of foreign rye were to be sent to the Home Office, and through the taking over by the Government of 500 quintals of threshed Danish rye in each of three counties—the prices of which supplies were to be fixed by a Royal Commission appointed for that purpose—it was desired to set a correct price on both Danish and foreign rye at that time. Based on the valuation made by the above-mentioned Commission, the Home Secretary, on December 31, 1914, fixed a maximum price for Danish rye of kr. 19.50 per 100 kilos. By an ordinance of January 28, 1915, the maximum price of Danish wheat was fixed at kr. 21.50 per 100 kilos, and of wheat-bran produced in this country at kr. 17.00 per 100 kilos. The same maximum price was also later fixed for rye-bran.

As mentioned above, the central difficulty in the whole breadstuff question was reached by the fixing of these maximum prices, namely, the question as to how the farmers were to be compensated for having to surrender grain grown for fodder in order to furnish a supply

of breadstuffs for the population; and, as a consequence, a lengthy discussion followed, which in January, 1915, ended in an interpellation of the Home Secretary in the Folketing concerning the country's supply of breadstuffs. On this occasion the Home Secretary defined his position by stating: "Full compensation for rye means the price at which corresponding breadstuffs, not fodders, may be obtained." To this the leader of the Left retorted that many farmers might only obtain a price of kr. 17 for the rye which they were compelled to sell for breadstuffs; but in case they had to buy corn, i.e., another fodder, to make up for the rye sold, they would have to pay from kr. 20.50 to kr. 21.00, if corn could be obtained at all. The Secretary then held out a promise to help those parts of the country —especially Jutland—which, on account of their exclusive production of rye, had been placed in an unfavorable position by the prohibition against using corn and rye as fodder, and give them corn in exchange for the rye which they had to surrender. This exchange also facilitated the procuring of domestic rye.

Bread and Flour.

The object of fixing a maximum price for Danish breadstuffs was, of course, to regulate the price of bread; the purchases of rye and wheat by the Government were also made with this object in view. By an agreement entered into by the Home Office, the districts of the capital, and the Associated Bakers of Rye Bread, a price was fixed for rye bread in Copenhagen of kr. 0.93 for a 4-kilo loaf, for the period from February 8 to September 1, 1915, a period which was subsequently further extended. In order to utilize rye as much as possible an ordinance dated March 8, 1915, provided that 100 kilos of rye must not be milled to a fineness that would leave less than 64 kilos of flour serviceable for the baking of bread. The corresponding figure for wheat was fixed at 68 kilos.

Spirits and Beer.

In order that home-grown grain might be used exclusively for bread the use of domestic rye and wheat in the manufacture of spirits had—as mentioned above—been prohibited. In February, 1915, the Home Office prohibited all use of rye, wheat, buckwheat, potatoes, and home-grown barley for the manufacture of spirits, etc.

(exclusive of yeast). In March, 1915, the Home Office prohibited the breweries from using home-grown barley—save the stocks on hand—in the manufacture of beer above the alcohol limit; brewing had thus to be carried on with the use of foreign raw materials.

Meat, Tinned Goods, and Lard.

A considerable transshipment of meat and lard took place from America to Germany via Denmark; and as Great Britain could not block these American exports she tried to impede Danish imports and reëxports of these goods. At the same time there was an increased export of cattle, meat, and tinned goods of Danish origin, principally southward. These exports went, however, to the usual markets; and, consequently, the demands of the Allies that the Danish Government take steps to regulate these exports had to be rejected. By the above-mentioned agreement of January 9, 1915, the Allies agreed to a normal export of meat southward. In return, Denmark, on January 10, 1915, placed an embargo on lard; exemptions from this embargo were, however, granted for a part of the Danish production. At the same time (February 5) a maximum price was fixed for lard; and, consequently, the arrangement had the appearance of being made to keep the home market supplied with the commodity in question at a reasonable price. This was, as a whole, in keeping with the principle maintained by the Danish Government, namely, that embargoes could be placed only to ensure supplies for the home market, and that no embargo could be imposed with a view to assisting the Allies in preventing the Central Powers from obtaining goods which the Allies themselves were unable to stop.

The Export of Horses.

As the export of horses south during the first months of the War was very extensive (exports during 1914 were 96,000 as against 28,000 in 1913) an embargo was placed on foals and colts in September; and on November 23 a general embargo on horses was imposed. Even though it might be said that the embargo had been placed in order to keep the Danish farmers supplied with draft animals, it was, however, only natural under the circumstances that this large export of horses to the Central Powers must have been exceedingly unpleasant to the Allies. The latter could not, however, bring any direct influence to bear; but, of course, there were many

other commodities the supply of which depended upon the friendly attitude of Great Britain. Further, the position was this. As a condition for releasing certain goods on which Germany had placed an embargo she demanded that compensation be given; and even though Germany, to a great extent, considered exports of agricultural produce as compensation it might, in certain circumstances, be of importance to have commodities which could be used for this purpose; and this became the case with horses.

Hides and Leather Goods.

While we had a free hand with regard to the export of cattle, meat, tinned goods, and horses, in so far as we did not need supplies of these commodities from abroad, the question of exporting hides, leather, and leather goods was more difficult. In these instances Danish industry was dependent upon supplies of tannin and heavy overseas hides for the manufacture of sole leather; and this, coupled with a great increase in prices—caused by a heavy demand at home and also, and not least, from the military authorities of the Central Powers—necessitated regulations against such exports. Both now and later, during the War, regulating these goods met with great difficulties, because an arrangement limiting the export of hides caused a reduction of prices, which was detrimental to the farmers and favorable to the tanning industry; and regulations concerning tanned hides hurt the tanneries but benefited the shoemakers and saddlers. Finally, in December, 1914, a series of negotiations resulted in an embargo on all dressed hides and skins, and on leather; and in February, 1915, an embargo was placed on pigskins and all undressed leather goods. But the fact that it was still more important to protect the country against unemployment than against high prices prevented the Government's losing the economic advantage incidental to exports by a general embargo on all kinds of leather and leather goods, as it seemed better to submit to a rise in prices, which was no doubt deeply rooted in the prevailing economic conditions; and this is well worth bearing in mind when trying to understand the trade and financial policy pursued during the War.

Agriculture.

While the difficulties in supplying the farmers had not yet reached such a state that the necessary raw materials and auxiliary materials

for the full maintenance of agricultural industry were lacking, several changes in the agricultural system were, however, necessitated by both the altered conditions of supply and by domestic interferences and regulations. During the years 1914 and 1915, taken together, agricultural exports averaged about kr. 720,000,000 against about kr. 530,000,000 in 1913, whereas the imports of fodders and fertilizers, etc., averaged about kr. 220,000,000 in 1914-1915 and about kr. 160,000,000 in 1913; accordingly the surplus had increased from about kr. 370,000,000 to about kr. 500,000,000—an index of the extent of the increased sales.

Manufacturing Industries.

Where manufacturing industries were concerned the outbreak of the War had endangered supplies of raw and auxiliary materials, and especially the supply of coal; and in spite of the fact that the Chamber of Manufacturers had urged its members "to employ the largest possible number of workers so long as it was in any way possible," the percentage of unemployed in the industries proper had reached 9.6 at the end of August, 1914, as against 3.8 in the preceding year. This was, however, the climax; thereafter the percentage declined steadily. But unemployment in the building trades and among unskilled laborers was steadily increasing during the winter of 1914-1915, as building operations—especially in Copenhagen—up to the spring of 1915 were entirely suspended.

Industrial conditions were also, to a great extent, impeded by the fact that most raw materials were contraband of war; while Danish embargoes on such materials were imposed from time to time, it was often exceedingly difficult to obtain exemptions from the embargoes of the belligerent Powers—partly because in many cases they themselves needed the raw materials, and partly because, as the economic war became more acute, the demands for guarantees that the goods should not benefit the enemy directly or indirectly became more and more stringent. The fact that normal sources of supply were closed made it appear as if more than the usual quantity of certain goods was being imported, because requirements necessarily had to be met from that country where such goods could still be obtained, including the requirements which had hitherto been met by imports from other countries. Further, in many ways changes occurred in imports of raw materials, unfinished goods, and manufactured goods. At the

same time exports also showed great changes; but in spite of the above-mentioned rise in leather goods, and the general increase in prices, they showed only an increase of from kr. 61,000,000 in 1913 to kr. 66,000,000 in 1914, while imports of raw materials did not differ materially in value for the two years.

The fact that supplies to industries were maintained, to a certain extent, during the first part of the War was due mainly to the work immediately undertaken by the Chamber of Manufacturers. In January, 1915, a large meeting was held, at which, besides the representatives of the various industries, both the Home Secretary and the Foreign Secretary took part in the debate as to the steps to be taken to cope with the difficulties incidental to the now prevailing shortage of important materials such as copper, lead, rubber, and chemicals. The Allies especially feared that such goods as copper and rubber would be reëxported to the Central Powers; consequently the debate chiefly dealt with the finding of such forms of guarantee against the reëxport of goods which were imported for domestic use as would enable the Allies to feel satisfied that the obligations thus incurred would be met. As the Foreign Secretary did not consider it expedient that the Government should act as an importer, and also gave his advice against establishing an import organization proper, the Chamber of Manufacturers decided to offer the British Government only guarantees for the fulfilment of the obligations incurred by its members. Negotiations looking to further arrangements were commenced in London, and resulted in an agreement dated February 18, 1915. Thereby the seed for the subsequent commercial treaties was sown.

Shipping.

Although freight rates had begun to rise toward the end of 1914 the rise was not large enough to compensate for the reduction in the profits of the shipping trade caused by the interruptions during the period immediately following the outbreak of the War; and, consequently, the gross proceeds of the foreign carrying trade of the Danish merchant marine during 1914 amounted only to kr. 102,000,000, as against kr. 119,000,000 during 1913. But in 1915 freight rates rose to such an extent that gross freight proceeds reached kr. 234,000,000. Freight rates, however, reached their climax in February, 1915.

3. Finances and Prices.

The Stock Exchange.

Unlike the great stock exchanges of the world the Copenhagen Stock Exchange had not been greatly affected by the world's political vacillations between hopes for peace and fear of war after the Sarajevo murder; and even though the Stock Exchange was violently shaken when the War broke out, it may be said that there was no actual panic like those which had been ravaging the great foreign stock exchanges. But the anxiety was, however, so great during the last days of July, and the slumps in the prices of securities so severe, that on July 29 the Minister of Trade opened negotiations in part with the chairman of the Stock Exchange Committee and in part with representatives of the leading banks, for the discussion of possible measures against the impending danger. It was thought sufficient for the time being to prohibit members of the Exchange from participating in bear operations. At the same time the five leading banks of Copenhagen agreed to waive their claim for payments on loans given on Stock Exchange securities so long as the official price of the securities pledged did not drop below the amount of the loan. As, however, the War and the crisis spread, the Stock Exchange was closed temporarily on August 1 and finally on August 3.

Banks and Savings Banks.

While it had thus been possible to avert a panic on the Stock Exchange, in which securities would have been thrown on the market, milder measures had to be applied in dealing with a corresponding disquietude regarding deposits in banks and savings banks. It was impossible to suspend bank payments, while it was possible to postpone them. The Act of August 2, 1914, dealing with withdrawals of deposits and savings, empowered the Minister of Trade to provide that withdrawals in excess of kr. 300 a week could not, as a rule, be demanded on passbooks or deposit receipts. It appeared, however, that almost kr. 14,000,000 were withdrawn from the Copenhagen banks during August in excess of the amount deposited; in the provincial towns the corresponding amount was upward of kr. 6,000,000 and in the country somewhat less than 4,000,000, making a total of 24,000,000, whereas from September, 1914, to January, 1915, kr. 28,000,000 was deposited over and above the amount withdrawn.

The prevailing anxiety of the population also resulted in a hoarding of silver coin. An attempt was made to remedy the great inconvenience thereby caused by authorizing the National Bank, by an act of August 15, to issue notes of the denomination of one and two kroner, the smallest note having hitherto been the five-kroner note. But only one-kroner notes to the amount of kr. 9,250,000 were issued. Gradually silver came into circulation again. And at the close of the National Bank's business year (July 31, 1915) only kr. 900,000 in one-kroner notes was in circulation.

Suspension of Gold Payments.

Of all the effects of the unrest on the money market the suspension of the right to convert notes into gold was the most fatal. During the last days of July gold was in such demand that the bank lost about kr. 5,000,000 worth of the metal. For this reason, and also because the gold reserve was not very large (as against kr. 156,000,000 in notes in circulation at the end of July there was only a gold reserve of kr. 78,000,000, which was barely sufficient to satisfy the legal requirement of gold cover for half the amount of notes issued) the Bank considered it necessary to obtain an exemption from its obligation to convert notes into gold. But in view of the unsettled conditions the necessity of having a supply of gold on hand for the payment of debts to foreign countries had also to be taken into consideration.

Amendments to the Rules Governing the Gold Reserve.

The heavy demands made on the Bank meant, however, that the 50 per cent gold reserve could not be maintained; and consequently the Bank applied for, and by a Royal Ordinance of September 30, 1914, obtained various releases from the provisions regarding note backing in the Act of 1907. The gold cover was reduced to 40 per cent, while at the same time the Bank was allowed to include certain securities in its reserves, securities which it had not hitherto been allowed so to include. By the middle of September its active circulation had increased to kr. 202,000,000, whereas the backing was kr. 74,000,000. Thus kr. 54,000,000 in notes was in active circulation in excess of the limit. In its recommendation of September 24, 1914, the Bank states with regard to the amendments to the

provisions concerning reserves that the reason for this disproportion and for the fact that it might very well increase for some time to come was, so far as the reserve was concerned, the impossibility of obtaining gold, and as for the notes, it was chiefly the blocking of foreign credits which finally forced those desirous of obtaining loans to apply to the National Bank. The Government agreed to the recommendation of the National Bank; on November 17, 1914, a bill amending the charter of the National Bank was introduced and became law on March 31, 1915. The principal difference between this act and the Act of 1907 was that the reserve was now to amount only to 33⅓ per cent as against 50 per cent before. According to the Act of 1907 two-fifths of the backing might, however, consist of the net amounts due to the bank from the Swedish Riksbank, The Bank of Norway, and the Deutsche Reichsbank. The note reserve was thus reduced from one-half to one-third; but amounts due from the three foreign banks of issue could not in the future be included in it.

The desire of the Bank to be enabled to grant credits on an extensive scale had thus, to no slight degree, been met by the legislature. The reason for this seems primarily to have been that reserve provisions had been rather stringent and, consequently, it might be considered safe to modify them. Furthermore, it had proved impossible to maintain such provisions in the face of the demands on the Bank caused by the outbreak of the War. Without a doubt the Government's need of funds also played a part in this respect.

The desire of the Bank to become more active in granting credits met with the desire on the part of trade to be compensated for the credits hitherto obtained from abroad, a desire which was also entertained by the Labor Party on account of the stoppages of work and the heavy increase in unemployment during the first months of the War. The difficult position of the Bank, its desire for more activity as a credit giver, and the current opinion that the War could not possibly last long, probably all acted together in putting the question of maintaining the value of money in the background.

Immediately after the outbreak of war the heavy demand for goods from the Central Powers caused an influx of foreign bills, etc., and gold, which afforded Denmark a legal basis for her policy regarding the issue of bank notes which was pursued during the War and the years after the War.

Foreign Money.

The increases in the exchange rates for foreign moneys which followed immediately upon the suspension of gold payments and the embargo on gold and silver, in connection with the demands from abroad for repayment of money due, continued during the autumn. But almost immediately a noticeable weakness in the reichsmark, the Austrian krone, and in rubles, set in. Thus, almost from the first day of the War the hopeless struggle to maintain the values of the three last-mentioned rates commenced, in which struggle—especially so far as the reichsmark is concerned—Denmark lost very large sums. As circumstances were, in the autumn of 1914, the inequalities of the currencies of the Central Powers and those of the Allies as against the Danish krone were, however, only indicative of the fact that the Danish krone had depreciated less in value in the international currency market, in terms of dollars and sterling, than had the reichsmark and the Austrian krone.

The consternation caused by the fact that the pound sterling and the dollar commenced to rise in value immediately after the outbreak of war, resulted in negotiations between the banks, the Government, and the "Extraordinary Royal Commission." For the grain importers, in particular, claimed that the lack of available dollar exchange caused a decrease in the supplies of wheat and fodders, as they could now be bought only for cash in America. The Government did not, however, desire to make extensive arrangements, but obtained a credit in dollars corresponding to kr. 4,000,000 which was to be used in payment for grain imported by the Government, and a sterling credit of £84,000 to be applied to the payment of interest on the national debt.

Against the great shiftings in the balance of trade these amounts were insignificant, and the decreasing international value of the krone could not be stopped by the obtaining of these credits, and still less by the rise in the bank rate which took place, the rate being raised on August 1 from 5 to 6, and on August 4 from 6 to 7; to be lowered again on August 11 to 6, and on January 6 to 5½ per cent. Now, as also later on, it was proved that the changes in the bank rate must have a small margin to work upon if they were to have any significance at all.

The lack of foreign moneys, and especially of sterling and Dutch

guilders, which was felt was partly due to the fact that the country had large financial credits to settle—especially in London and Paris —and, partly, that at home, and also indirectly from Germany, heavy demands for sterling and guilders were made on our money market; because both the supplies obtained via Copenhagen and the supplies procured from the south had to be paid for largely in British currency, and only to a slight extent, or not at all, in German money. The purchases of this money in Denmark were among the causes why we came to have such large claims on Germany, the payments having, of course, been made in marks.

The total financial credits is uncertain, but if the bills of exchange and the credit debts of the banks are estimated at about kr. 50,000,000 and the debts of Danish firms to foreign countries at not less than kr. 20,000,000, it cannot have been impossible to pay these amounts; and the repayment of these credits can have been merely one cause among several of the stringency on the money market. But immediately after the outbreak of the War the collapse of the international money market, which was mainly responsible for the demand for sterling on this market, and the calls for payment of short credits from Germany, Great Britain, and France, coupled with a natural nervousness and reserve on the part of the owners of such moneys, acted together to cause a rise in the rates of exchange.

The International Credit Balance.

But these conditions cannot have had a deciding effect throughout the autumn and winter as the rise in the rates of exchange steadily continued. If we examine the balance of credit during the time from the outbreak of the War to December 31, 1914, an extraordinary influx of foreign media of payment—about kr. 190,000,000—is apparent, which in normal circumstances would have made impossible the rise in the rates of Allied exchange. This reached its climax on February 26, 1915, with a sterling rate of 19.50 (18.16 at par), and on March 1 with a dollar rate of 413 (373 at par). It was, however, a fact that the payment of this kr. 190,000,000 was made in an unusual manner, more than kr. 100,000,000 being covered by the return of Danish securities from abroad. Payments were further made in foreign money and in gold; and the flight of capital from the belligerent countries may certainly be supposed to have

had the effect that there was actually a larger amount available than the above-mentioned kr. 190,000,000, so that a part of the goods imported during 1915 had already been paid for. There was, consequently, so much foreign money on hand that the amount due to the private banks from abroad was increased by about kr. 30,000,000, and the amount due to the National Bank (inclusive of the increase in its gold reserve), by kr. 50,000,000. Therefore, the rise in the rates of foreign exchange cannot have been caused by any lack of foreign money; other special causes must have made themselves felt.

As soon as the convertibility of notes into gold is suspended and currency thus made free, its price—like the price of any other commodity—will be determined by supply and demand. But when the rates of foreign exchange were here forced to go on rising in order to maintain an equilibrium between supply and demand, this must, in the first place, be conditional upon a limited supply, and in the second place, on the increasing willingness and capacity to pay on the part of the purchasers. So far as the supply was concerned this was limited—in spite of the great profits derived from sales abroad —because only a small part of the amount was received in available currencies, while the bulk consisted of our own securities and of gold which could be reëxported only to a very small degree; and, finally, because the banks had to keep on hand part of such foreign money.

We must then ascertain whether there was an increasing capacity to pay, i.e., whether the purchasing power in terms of Danish kroner was growing. It may be supposed that from the end of July to the end of August the National Bank had increased its advances by from kr. 20,000,000 to kr. 30,000,000. This extension of credit must chiefly have been due to the assistance lent by the National Bank to the payment of short-term credits abroad, for the banks themselves did not increase their advances during the first three months of the War. Furthermore, foreign countries may, by loans on securities, etc., have procured Danish kroner for the purchase of sterling and dollars, even though these currencies could be bought, and were bought, with other foreign media of exchange. Besides, the Treasury was drawing on its deposits in the private banks, thereby compelling them to resell an increasing number of bills on the National Bank. At the outbreak of the War the National Bank owed to the Treasury direct only kr. 3,400,000.

Accordingly, it may be supposed that the extension of credits by the National Bank contributed to the increase of foreign rates of exchange, so much the more as the money which became available was used, to no slight extent, in the purchase of foreign goods to obtain supplies which were threatened with a stoppage.

But the credit extension of the National Bank had another and equally important effect in that it formed the basis of the credit extensions of the private banks, which commenced in November, 1914—by assuring the banks that, without becoming dependent upon the National Bank, they could always have sufficient notes on hand with which to meet requirements for cash incidental to the increased granting of advances.

This will appear if we consider the period from August, 1914, to February, 1915, during which time all foreign rates of exchange were increasing and culminated, the active circulation of notes of the National Bank, by reason of the increase in sums due from abroad and in the stock of bullion, being increased by about kr. 45,000,000; whereas the advances of the private banks were increased by about kr. 30,000,000.

As the deposits and the withdrawals of the savings banks during this period, as a whole, were almost equal, and as conditions in other ways were becoming more quiet toward the end of the period (advances by the National Bank at the end of July and at the end of February being about the same), it must be expected that this increase of the purchasing power, amounting to kr. 75,000,000, may be found as deposits in the banks. This proves true when a comparison is made between the amount on deposit in the three leading private banks at the end of July, 1914, and that at the end of February, 1915. The deposits were increased by kr. 68,000,000 in these three banks, and at the same time the item "Sundry Creditors" in the returns of the National Bank was increased by kr. 7,000,000, or by a total of kr. 75,000,000, corresponding to the increase in notes in circulation plus the increase in the advances of the three banks. In other words, the private banks had obtained possession of the increased issue of notes.

The developments on our money market during the first months of the War may briefly be characterized as follows: The collapse of the normal modes of payment made necessary the assistance of the National Bank in August, otherwise a complete crisis would have

occurred. At the same time, and later, came the meeting of requirements by the Government, and gradually the payment for the agricultural exports to Germany, which it was impossible to refuse to accept considering the forms of payment which Germany could offer. Hereby the supply of media of exchange in this country was increased, as the German marks received by us—as shown above—were converted into Danish kroner. Following the desire of the National Bank, part of these marks were exchanged for gold to provide the necessary reserve for the issue of notes, and following the desire of Germany, to prevent the fall of the reichsmark rate caused by the supply of this money to the market. But this, so far, was only a formal change, in so much as both foreign money and bullion necessarily had to be converted into Danish kroner to the extent to which these media of payment came from Danish exporters who, naturally, wanted kroner. This caused the increase in the issue of notes by the National Bank, and this increase took place before the increase in the advances of the private banks.

The notes passed to the private banks, and thereby became in a sense liquid. This meant that the private banks became independent of the National Bank, which latter bank naturally had some doubt about the effects of the increase of the bank rate on this situation, in which the private banks were "rolling in money." The extension of credits had virtually become systematized, and the rise in prices caused by the increased scarcity of commodities—or the expectation of such scarcity—was, of course, a natural incentive to a continued expansion of credit.

The Price Level.

The above-outlined interchange of goods with foreign countries had not only the effect of forcing up foreign rates of exchange, but the rising prices in the belligerent countries and the increase in the freight rates, coupled with the increase which was due to the fall in the external value of the krone, were responsible for a rise in our price level. For the prices of the goods we purchased abroad and the prices of the goods sold by us, as a whole, naturally determined the prices in this country. We were, so to say, infected with the rise in prices in the belligerent countries. It also appeared that the Danish wholesale price index number had risen by about 30 per cent, whereas the index number of *The Economist* had only risen by about

20 per cent, which corresponds to a fall in the external value of the krone of about 10 per cent.

This rise in wholesale prices further reacted on retail prices which, in February, showed an increase for food, in the worker's budget, of 20 per cent, and for fuel of about 30 per cent.

The rise of the Danish price level continued throughout the years of war; but at about the beginning of March the rises in the rates of exchange stopped and a decline set in carrying the value of the Danish krone above the old gold par value, and there it remained during the rest of the actual war period. This turn of affairs in February and March, 1915, probably must be ascribed to the fact that the import demand, especially for grain and fodders, had been satisfied for the time being, that the prices of these commodities had commenced to fall on the world market, that the remaining imports decreased while, at the same time, exports were maintained to almost their full extent, and that the profits from the shipping trade were increasing. But, furthermore, information of the impending British Order in Council of March 11, 1915, assisted in limiting the demand for foreign money, because it was feared that the possibility of maintaining supplies from overseas would be further diminished.

CHAPTER III

FROM MARCH, 1915, TO FEBRUARY, 1917

1. International Law and Commercial Policy.

The Order in Council of March 11, 1915, read in part as follows:

Whereas the German Government has issued certain orders which, in violation of the usages of war, purport to declare the waters surrounding the United Kingdom a military area in which all British and Allied merchant vessels will be destroyed, irrespective of the safety of the lives of passengers and crew, and in which neutral shipping will be exposed to similar dangers in view of the uncertainties of naval warfare:

And whereas in a memorandum accompanying the said orders neutrals are warned against entrusting crews, passengers or goods to British or Allied ships:

And whereas such attempts on the part of the enemy give to His Majesty an unquestionable right of retaliation:

And whereas His Majesty has therefore decided to adopt further measures in order to prevent commodities of any kind from reaching or leaving Germany, though such measures will be enforced without risk to neutral ships or to neutral or non-combatant life and in strict observance of the dictates of humanity:

And whereas the Allies of His Majesty are associated with him in the steps now to be announced for restricting further the commerce of Germany:

His Majesty is therefore pleased, by and with the advice of His Privy Council, to order, and it is hereby ordered, as follows:—

These were the grounds for the Order in Council of March 11, 1915, which aimed at cutting off the Central Powers from all supplies, a so-called "distance-blockade" which could not be effectively maintained as a real blockade of the coasts in question, but which hindered traffic on the high seas and access to neutral ports. On the other hand, the Allies did not, in consequence of the declaration of the blockade, declare blockade runners to be good and lawful prizes, but declared that confiscated goods which were not contraband of war should be replaced or returned to the owner, in so far as they were not suspected of being destined for the enemy.

It soon appeared, however, that the agreement of January 9,

1915, did not prevent goods which were indubitably intended for Danish consumption from being discharged when vessels were ordered to put into British ports, and in some cases the same thing occurred in the case of goods on which an embargo had been placed in this country, which was a direct violation of the January agreement. The reservations made by Great Britain with regard to goods which were doubtless destined for the enemy were, therefore, now applied, and, as against the objections made to this, it was proposed to extend the agreement to include goods which were not contraband of war. The Danish Government could not agree to this on account of its above-mentioned point of view, that embargoes should only be imposed in order to assure supplies for the home market. It must, therefore, be compulsory upon the individual importer to give satisfactory guarantees against reëxport; and if the Allies did not consider this sufficient the large trade organizations must step in.

Consequently, negotiations looking to trade agreements were entered upon by the belligerent powers on one side and the Committee of the Merchants' Guild and the Chamber of Manufacturers on the other. That these private institutions and not the Government concluded the agreements with the Allies was due to the circumstances already described, and also to the fact that the Danish Government could not negotiate on the basis of the Order in Council of March 11, which it considered a contravention of international law.

But there was still another reason for extending the arrangement already entered upon through the agreement of February 18, 1915, between the British Government and the Chamber of Manufacturers, namely, the desire to counteract the tendency of both belligerent groups to obtain direct control of Danish trade, e.g., by letting the foreign consulates audit the books of the Danish consignees and the like, a mode of procedure against which, of course, it was necessary to make the strongest possible objections.

The Trade Agreement with Germany.

The question of concluding "trade agreements" first came to the front as regards Germany, and as a means by which to avoid the control planned by Germany. The agreement was concluded between Germany and the Chamber of Manufacturers on August 24, 1915, and in September a similar agreement was concluded with the Committee of the Merchants' Guild; in November both organizations

concluded agreements with Austria-Hungary. The organizations took over the guarantees with regard to goods imported by their members. The fact that the agreements became so favorable to Denmark was, to a great extent, due to the personally amicable attitude toward Denmark of the German Minister in this country, who "naturally took this attitude because he was convinced that it was highly to the interest of Germany that Denmark should remain neutral." Doubtless it was equally important that Germany, by yielding to the demand of the Chambers of Manufacturers that materials imported from Germany might be used even in goods which were to be exported to the Allies, enabled the Chamber of Manufacturers—by reference thereto—to compel Great Britain to grant similar concessions which, in due time, would be beneficial to Germany. Concerning this point, the report of the Chambers of Manufacturers says: "There was doubtless even at that time a difference of opinion between the German Legation—supported by the Foreign Office—on the one hand, and the representatives of the War Office on the other, a difference which was further deepened when at the end of 1916 Roumania had joined the Allies and the German military authorities desired to occupy Denmark." These lines give an idea of the degree to which our commercial policy and the accompanying financial policy was a matter of balancing on a razor edge where the slightest misstep might be fatal.

While the trade agreements with the Central Powers were based on the compensation principle—goods for goods—as had been the case from the beginning of the War, similar demands for compensation were not advanced by the Allies.

The Trade Agreement with Great Britain.

By the Anglo-Danish agreement of November 19, 1915, Denmark succeeded in making an arrangement similar to that made with Germany. The two great business organizations made declarations guaranteeing that the obligations incurred by their members would be met, whereby the control exercised by the foreign countries ceased. The actual agreement set no limit to imports from the western Powers, but the question of such limiting or "rationing" had been brought up and discussed in the course of the negotiations.

In a letter dated February 29, 1916, from the British Foreign Office to the two Danish organizations, the agreements entered into

were further detailed and a number of "ration quantities" fixed. But this letter also contained a reservation which had not been mentioned in the agreement, namely, with regard to blacklisted firms, which the Allies thereby cut off from all supplies, etc. When the "Danish Trade Office," founded in London in March, 1916, by the organizations, commenced working, it succeeded to some extent in arriving at an understanding with regard to the Allied black lists. A similar arrangement with Germany could not be made, not even when stipulations as to the suspension of blacklisting were introduced in the credit agreements, the making of which was commenced in 1917.

An act of April 5, 1916, fixed the penalties for contraventions of these declarations of guarantee given by the Committee of the Merchants' Guild and the Chambers of Manufacturers.

The Cancellation of the London Declaration.

During the year 1915 several new kinds of commodities had been included both in the German and the British lists of contraband, and further additions were made during 1916, so that practically all commodities of any importance were now declared contraband of war. But by an Order in Council of March 30, 1916, Great Britain went even further, and abolished the difference between absolute and conditional contraband while, at the same time, the rules concerning enemy destination were made more rigorous, in so much as blacklisted firms were, in advance, considered enemy destination; and neither ships nor cargoes could be exempted from confiscation for attempted breach of blockade, even if such vessels at the time of the seizure were bound for a port which was not under blockade. Finally the step was carried to its utmost limit when the Allies, on July 7, 1916, canceled the London Declaration and substituted new rules, according to which enemy destination was to be presumed in all cases where the consignee had not given proof to the contrary; by this rule, practically speaking, any consignment might be seized and referred to the Prize Courts. On July 22, 1916, Germany included corresponding provisions in her prize ordinances.

2. The Government and the Home Market.

Introductory Remarks.

If now we turn to an examination of the influence of the above-described conditions of commercial policy on the imports from and

exports to foreign countries, and thence turn to the financial condition of the country, it may be observed, in general, that on the one hand the trade agreements made it possible to maintain supplies in the country to some extent. This was more particularly due to the fact that we succeeded in keeping fodder imports out of the agreements and, consequently, free from the attempts on the part of the Allies to have ration figures fixed for them. On the other hand, the ever increasing difficulties in getting supplies and the dangers of navigation caused supplies to decrease, as also because the increasing scarcity of goods in the world market made it more and more difficult to obtain exemptions from the embargoes of the belligerent countries. This was, e.g., the case with breadstuffs, but not with grain for fodder, or with fodder cake; and in spite of the reduction of the domestic crop we succeeded in maintaining our exports of butter and bacon unchanged, whereas the exports of other goods, especially of grain, sugar, and cement, were reduced. It was not till after February, 1917, that serious difficulties in maintaining supplies set in.

Breadstuffs.

The quantities of grain and fodders imported and the total harvest yield will be seen from the summary on page 540.

As mentioned above, the crop of 1914 was very poor, and neither the crop of 1915 nor that of 1916 came up to that of 1913. But, chiefly by means of the plentiful supplies in the spring of 1915, we managed, however, to get through the harvest year of 1914-1915; and on October 15 the Extraordinary Royal Commission submitted to the Home Secretary a "grain plan" for the harvest year of 1915-1916. This plan was to the effect that the quantities of breadstuffs necessary for the people should be assessed on the farmers, while the remainder should be released for use as fodder.

For the harvest year 1915-1916 maximum prices for breadstuffs were then fixed at kr. 18.50 per 100 kilos of rye, and at kr. 19.00 per 100 kilos of wheat, varying according to quality, and at kr. 16.00 per 100 kilos of wheat- and rye-bran. The maximum prices in force during the year 1914-1915 were: kr. 19.50 for rye, kr. 21.50 for wheat, and kr. 17.00 for bran. The reduction nearly corresponded to the immediate reduction on the world market. Furthermore, in connection with these maximum prices a maximum price for Danish flour

was fixed at kr. 21.00 per 100 kilos of coarse rye flour from Danish rye, and at kr. 26.00 per 100 kilos of white flour from Danish wheat. The maximum prices for the crop of 1916 were advanced by kr. 2.00 per 100 kilos for wheat and wheat flour, in order to meet the demands of the farmers; the price of rye remained unchanged as also that of rye flour; but to compensate for this the Government paid a bounty of kr. 3.00 per 100 kilos of rye, on the 1916 crop, sold by the farmers to merchants, millers, or bakers to be used as breadstuffs, or used by the farmers as breadstuffs in their own households. In view of the unfavorable harvesting conditions which delayed the appearance of the new crop this bounty was increased by kr. 1.00 in order to further the threshing of this crop. By this bounty the price of 100 kilos of rye rose to kr. 22.50, whereas the maximum price for maize was kr. 23.50, so that part of the difference between the prices of breadstuffs and fodder grains was eliminated. The remainder—in view of the fact that it was the pork producers who chiefly suffered the loss—was compensated for by the subsidy to the pork producers; and by an act of June 26, 1917, an extra compensation of kr. 2.00 per Danish bushel of 1916 wheat or rye, delivered in excess of eight Danish bushels per *tonde hartkorn* (tax acre) was allowed, besides which it was provided, at the same time, that the farmers should pay the same amount for each Danish bushel delivered less than 8 per *tonde hartkorn*.

Flour and Bread.

Further, an attempt was made to increase the food value of wheat by introducing new grinding provisions. It was thus forbidden to produce full-sifted rye flour; and half-sifted rye flour must not be milled to less than 80 per cent. Furthermore, it was ordered that 10 per cent of barley flour should be mixed with the half-sifted rye flour.

As mentioned above, the price of rye bread in the capital and in certain other local districts had been fixed at kr. 0.93 per 4 kilos by an agreement entered into between the Government and the local districts concerned and the bakers of rye bread. In conformity with the alteration of the maximum price of rye on November 1, 1915, this was reduced to kr. 0.89; it was, however, only possible to maintain this price by mixing—for the time—25 per cent of barley flour with the rye flour, and by subsidies from the local districts. On the

other hand, the price of wheat bread rose steadily on account of the rise in the price of both domestic and foreign wheat.

Fodders.

While the barley crop of 1915 had been ample that of 1916 was essentially poorer, for which reason a maximum price for barley of kr. 24.50 per 100 kilos was fixed in November, 1916.

The potato crop was also poor in 1916, so poor, indeed, that it was to be feared that the requirements for potatoes for human consumption could not be met if the use of potatoes as pig feed was not prevented. The competition between human beings and live stock, which had made the solution of the rye problem so difficult at the beginning of the War, now caused similar difficulties with regard to potatoes. At the time when our barley crop was small and the supply of corn exceedingly difficult to make last through, it was necessary to resort to a prohibition against the use of potatoes as fodder.

As will be further explained below, an act of May 12, 1916, imposed a tax on shipping—in view of the high freight rates—which tax was to be used in securing the supplies of goods necessary to the country. And on account of the importance of pork as an article of food for the population, it was mainly the price of hog feed—corn—which the Government attempted to reduce by means of this tax, in order thereby to keep down the price of pork.

In order to prevent an increase in the price of corn a maximum price of kr. 23.50 was fixed, and this maximum price was maintained even after the price in the open market had become essentially higher, as the Government—out of revenue from the shipping tax—assured to the importers the difference between the higher purchase price and the maximum price.

The Production of Pork.

These arrangements covering fodder grain were meant, in part, to make it possible to maintain the production of pork, in view of the exports, and, in part—as mentioned—to be instrumental in bringing about the cheapest possible pork on the home market, a fact on which the Government laid much stress in view of the steady rise in the price of food.

During the first six months of the War prices on the German and the British markets were maintained at the same level, so that

exports to the western and the southern markets were made in the same proportions as before the War. But in the beginning of 1915 the price of pork in Germany rose; and in March, 1915, it became kr. 170.00 per 100 kilos, as against kr. 154.00 in Great Britain. This rise caused a considerably increased export to the southern countries, but as this involved a danger—in so much as the condition underlying the unhampered supply of fodders was that Great Britain got a reasonable share of the exports, i.e., the same share as before the War—arrangements were made to centralize exports and to bring about the required apportionment of these exports southward and westward. This was done in the following manner: On March 23, 1915, an agreement was entered into by the Government and the pork-packing houses, under which the sole right to export pork was assigned to the actual packing houses, and, in return, the latter were to supply the necessary pork and offal for the requirements of the home market at prices which were to be fixed by the Home Office assisted by a committee of three persons. The prices were to be calculated by referring to the quotations on the English market.

A committee was appointed to see that exports were made in the right manner. This committee fixed certain percentages of the weekly killings for the home market, for Great Britain, and for Germany, respectively. As a result of this interference about 75 per cent of the total exports of 1915 went to Great Britain and practically all the rest to Germany. When, in the spring of 1916, Great Britain again brought up the question of rationing the supplies of fodders, the cause was, therefore, not chiefly the apportionment of the exports of pork, neither was it the exports of butter and eggs, for which commodities similar arrangements had been made, but rather the exports of meat. On the contrary, it was possible to prove that the arrangement made with regard to pork, e.g., during the first six months of 1916, had caused a loss to the Danish farmers of about kr. 100,000,000, which amount represented the difference between the German price and the British price on the quantities exported to Great Britain. Such an uncommercial apportionment of the sales was only warranted out of regard to Great Britain; and a rationing of the supply of fodders would only cause a decrease in production and a consequent smaller quantity for export. That Germany had to have a fair share of such exports was due to the fact that that

country was able to stop exports to Great Britain and, therefore, had to be given some inducement to refrain from doing so. In May and September, 1916, the Danish agricultural delegations, therefore, succeeded in convincing Great Britain that both she and Denmark would benefit by leaving the conditions of the supply of agricultural raw materials unchanged.

Beef and Mutton.

The presumption for leaving these supplies unchanged was, however, that arrangements should be made to retain a part of the country's beef and mutton for home consumption, thereby both diminishing the exports to the Central Powers and relieving part of the home requirement for pork, so that a greater proportion of the pork production could be released for export. While the aggregate weight of live animals and meat exported during 1913 had been 53,000,000 kilos, the corresponding figures for 1914, 1915, and 1916 were 64,000,000, 92,000,000, and 94,000,000 respectively; and apart from a small quantity of meat exported to Norway in 1916 these exports went southward.

To reduce these exports, and to maintain our stock of cattle without imposing a general embargo, the following arrangement was made after lengthy negotiations between the Government and the representatives of agriculture. After July 10, 1916, cattle, sheep, and goats could be exported only when shipments were accompanied by a certificate of export issued by the "Meat Bureau." The exporters obtained such certificates on the payment of an export duty, the revenue from which was applied to compensate for the fluctuations of prices (so that all the producers might obtain the same price) and to reduce prices on the home market, the butchers receiving a bounty on the meat sold by them. Thereby the retail price of meat could be fixed so low that it corresponded to a wholesale price of kr. 1.70 per kilo.

Up to August 19, 1916, the export duty was 7 öre and the subsidy for home consumption 30 öre per kilo, live weight; but as the exports could not nearly cover this subsidy to home consumption the export duty was increased to 10 öre per kilo, live weight, and the subsidy to 40 öre, and later to 60 öre per kilo of meat. But from February 11, 1917, both figures were reduced to 9 and 30 öre, respectively. These changes in the subsidy resulted from the movement in the price of

cattle, caused by a depression of the price on the German market due to the increase in German slaughtering to save fodder, and by which the demands made on our country were reduced. Our exports were severely curtailed, and during the months July to September, 1916, they amounted only to 4,700,000 kilos, or about half the normal quantity, the desired reduction of exports being so attained. Later on, exports to an increased extent went to Sweden and Norway, thus forming a link in the inter-Scandinavian interchange of goods.

The Production of Butter.

As had been the case with pork, the spread between the prices in Germany and Great Britain, which took place during 1915, caused a steady increase in the export of butter southward, and when, in October, 1915, the German price reached kr. 402.50 per 100 kilos, as against a British price of 288.50, an arrangement was made covering the export of butter similar to that concerning pork. A "Butter-export Committee" was appointed to take charge of the apportionment of such exports; through the Ministry of Agriculture fifty-seven firms were authorized to export butter, subject to their submitting to the scheme of apportionment prepared by this committee.

In return for these arrangements, by which Great Britain got about 80 per cent of the exports of pork and about 60 per cent of our butter exports, we obtained an uninterrupted supply of grain and fodders, and also of raw materials for the manufacture of margarine; which supply, however, was limited in accordance with the ration figures provided for in the agreement of November, 1915.

The Export of Horses.

But in order to keep Germany, to some extent, indemnified, and also as a compensation for various raw materials—especially chemicals—permission to export 10,000 horses was granted in November, 1915, and again, after September, 1916, about 1,500 horses per month. By this we met the wishes of the German military authorities in particular, and made it possible for the civil authorities of that country to guarantee that our exports to Great Britain were not interfered with.

The Export of Eggs.

In the beginning of 1916 exactly the same spread in the price of eggs occurred as had taken place in the case of pork and butter in 1915. In April the German price was kr. 2.15 per kilo, as against kr. 1.56 in Great Britain. Arrangements were, therefore, made to prevent the increased export to Germany which would naturally be the consequence of this difference in prices, and by these arrangements we gradually succeeded in increasing the percentage of the export of eggs to Great Britain to 50 per cent of the total.

Arrangements with Regard to Fish.

Conditions similar to those of the above-mentioned agricultural products gradually developed in our exports of fish. Rising prices and difficulties in connection with transportation greatly increased exports southward; and regulation, therefore, became necessary, both out of regard to Great Britain, which was very dissatisfied with this, and out of regard to prices on the home market. In September, 1916, it was, therefore, provided that all herrings caught, and from October that all fish of every sort caught by Danish fishing vessels were to be brought to the Danish coast, while the export of fish of all kinds was prohibited, unless such export took place through authorized institutions; and maximum prices were fixed on most kinds of fish, though "luxury fish" were not included in these maximum prices. The fisherman was to sell his catch to the exporter at the price ruling in the open market, whereupon the exporter had to sell it at the maximum price. The difference between the purchasing price and the export price, on one side, and the maximum price, on the other, was to be paid to the exporter by the Treasury, apart from an export duty paid by the exporter, and amounting to not more than two-fifths of the difference in the prices.

Great Britain having wrongly got the impression that southward exports were going on to an undiminished extent, the Allies tried to put a stop to the fishing industry by giving notice on December 14, 1916, "that they were therewith suspending the export of fishery supplies to Denmark," i.e., of nets, petroleum for the motorboats, etc. Following an order from Great Britain, "Det Danske Petroleums A/S" (The Danish Petroleum Co., Ltd.) had had, some days earlier, to halt the delivery of petroleum to the fishing fleet. At the

same time Germany stopped the export of Danish fish to Great Britain.

Other Foodstuffs.

An arrangement similar to that made for meat and fish was also made to cover cheese; but the Government did not grant any direct subsidy for the maintenance of the price to the consumers. Further, in the second year of the War the supply of another very important foodstuff, namely sugar, had to be maintained by the intervention of the Government. As the price of sugar from the outbreak of the War up to March, 1916, had remained at kr. 0.36 per kilo, while the price outside the country was materially higher, the Minister of Justice in September, 1915, placed an embargo on sugar in order to avoid excessive exports. The sugar question had, however, another side; for the greatly increasing prices obtained from other crops was necessarily an inducement to the farmers to abandon sugar beets in favor of such crops. But a reduction of the beet area at a time when the country was thrown upon her own production was considered very perilous; and with the consent of the Government an arrangement was made between the beet growers and De Danske Sukkerfabrikker (The Danish Sugar Factories), according to which the sugar factories, on March 18, 1916, increased their wholesale prices. The beet growers were to have the benefit of this increase provided that not less than the area hitherto contracted for by the sugar factories was again given to beets. But as a rise in the retail price also became necessary to cover the above-mentioned increase in the price to the beet growers, the Government desired to place the normal supply of sugar at the disposal of the population at an unchanged price. This was attained by tickets, valid for the purchase of 2 kilos of sugar per person a month at the consumers' price, whereas all other sugar cost kr. 0.18 more per kilo. This arrangement was, in other words, a system of rebate, but when the blockade came into force, on February 9, 1917, it was changed into a veritable rationing system, and no more sugar than the quantity allowed by the sugar tickets could be bought. Bakeries, restaurants, etc., received tickets corresponding to their normal consumption, subject to some reduction. Thereby the country was enabled to get through on its own production of sugar without an additional supply from abroad.

Hides and Leather.

While the conditions in the case of the commodities mentioned above—with the exception of sugar—were marked by the fact that all these things mainly concerned the farmer and his agricultural coöperative societies (dairies and packing houses), and there consequently could be no conflict of interests between the producers of raw materials and the industries manufacturing goods from such raw materials, such a conflict of interests greatly influenced the arrangements made to govern the tanning industry, as the rise in price from the outset brought about a conflict between these opposing interests.

3. The Staple Industries and the Supply of Fuel.

Agriculture.

As will be seen from the above, several restrictions had gradually been imposed on the work and the rights of the farmers; and it was natural that many farmers were highly dissatisfied, in the first place with the maximum price for rye and the losses resulting from the difference between the prices of rye and corn. The provisions prohibiting the use of breadstuffs as fodder, as also the later and drastic interference with the customary use of the crops aroused much resentment. The apportionment of the exports of butter, pork, and eggs according to principles of commercial policy and not economic principles, to say the least of it, called for no slight self-restraint on the part of the farmer, the more so because the deeper political reasons could rarely be mentioned, and even then they were sometimes doubted.

The Industries.

Times of prosperity for agriculture, shipping, and commerce were, of course, sufficient to create conditions essential for an increased industrial production, the more so because the demand for industrial goods went with a decreased supply of foreign industrial products. Already, by the end of 1914, the unemployment in the established industries had been reduced below the normal 5.2 per cent. During the year 1915 the percentage was 3.5 and during 1916 only 2.3 per cent. (Cf. the table on page 492.)

Production was increasing and the interest in industrial shares

so great that the average rate for 1915 was 118 and for 1916, 163, the price level in July, 1914, being taken as equal to 100. And while in 1913 the new issues of industrial shares and bonds had amounted to about kr. 2,000,000 the figure for 1914 was kr. 4,500,000, for 1915 more than kr. 11,000,000, and for 1916 about kr. 70,000,000. In 1915 and thereafter exports of industrial goods amounted to a considerably larger proportion of the aggregate exports than had formerly been the case, which was chiefly due to manufactures of agricultural produce, such as tinned goods, sausages, soup cubes, etc. But for other industrial articles the export figure during 1915 was very large. However, in the course of 1916 the greater part of these extraordinary war exports again vanished.

The Supply of Fuel.

Thus, on the whole, the trade agreements had enabled Danish industries to exploit the very favorable conditions created by the increasing demand from the home market and abroad, and by the failing supplies from former competitors. To this must be added that we succeeded in maintaining supplies of coal and coke—commodities which were not included in the agreements—so that during 1915 and 1916 we imported, on an average, the same quantities as during 1913; this was essentially due to the fact that the supplies from Germany were increasing; and in 1917 they even reached half the total import of coal, as against one-eighth before the War. See the figures below which are in thousands of tons.

	Imports of Coal and Coke, etc., from		
	Great Britain	*Germany*	*All Countries*
1913	3,153	363	3,576
1914	3,258	300	3,623
1915	3,284	602	3,892
1916	2,448	1,245	3,707
1917	865	1,258	2,127
1918	1,101	1,127	2,230
1919	1,845	372	2,325
1920	1,390	110	2,723

These figures do not quite allow of comparison, as the supplies from Germany consisted to a greater extent of coke than those from Great Britain. The figures do show, however, the immense importance of Germany to our supplies of fuel.

No slight nervousness was caused by the fact that at the beginning of May, 1915, Great Britain apparently intended to prohibit all exports of coal and coke except to her colonies or allies. A special delegation was, therefore, sent to England to negotiate with the Coal Export Committees, and on June 21 the Ministry for Foreign Affairs could issue a statement to the effect that the negotiations had resulted in Denmark's obtaining a promise of a quantity almost corresponding to her consumption in previous years, which quantity was to be applied for and distributed by a special Danish "Coal Bureau." At the same time the domestic output of firewood and peat had increased; and in December, 1916, a maximum price was set for the various kinds of Danish firewood—beech, fir, and spruce—the forest owners being, however, allowed to sell at their own price quantities of the various woods equal to those which they had sold at the maximum price.

Already, from the autumn of 1915, Great Britain had demanded as a condition for delivering bunker coal that the vessel concerned should bring a return cargo to England. From April 25, 1916, these conditions were made more rigorous, as no ship was allowed, after that date, to load coal for the three Scandinavian countries unless the vessel had already been chartered to carry a return cargo to Great Britain or one of her allies, or held a certificate from the Board of Trade that no cargo could be obtained. The ordinance issued by the British Foreign Office on April 17, 1916, providing that all coal of German origin found on neutral ships should be subject to confiscation was intended to support these conditions. In other words, Great Britain compelled the Scandinavian coal boats to procure return cargoes, which was often extremely difficult. Thereby voyages were prolonged and less tonnage became available for the supply of coal, so that at the end of 1916 it was rather this reason than the difficulties of obtaining licenses for the export of coal from Great Britain which reduced the quantity imported.

Under these circumstances negotiations were commenced with the German Government in July, 1916, and in October the "Continental Coal Committee" was appointed, whose task it was to take charge of and administer a supply of 90,000 tons of German fuel which the Government had decided to take over from the Social-Democratic Joint-stock Company ("Arbejdernes Faellesorganisations Braendselsforretning").

As it became increasingly difficult for the gas plants to obtain the required special gas coal for their operations the town councils in May, 1916, set up "The Coal Bureau of the Town Councils" which in coöperation with the "Shipping Committee" was to take charge of the purchase of coal and its distribution to the local districts of the country. At the same time (May 12, 1916) an act entitled "The Contribution of the Shipping Trade Towards the Most Necessary Supplies of the Country" was passed in pursuance of which the Shipping Committee undertook to transport 30,000 tons of household coal at a reduction in the freight rate of 66⅔ per cent, as also coal for the use of the local district gas plants, electric light plants, schools, hospitals, and the like; and, further, a certain monthly quantity for governmental purposes at a freight reduction of 33⅓ per cent. The whole arrangement could not, however, come into force until October 1, 1916, as the British authorities demanded information as to the quantity which we desired to import each month six weeks before the beginning of the month in question. The increases in freight rates also contributed to a rise in the import price of coal, from kr. 19.00 per ton in 1913 and 1914 to about kr. 30.00 in 1915, kr. 54.00 in 1916, and kr. 127.00 in 1917. Only the coming into force of the North Sea blockade created a new situation by further impeding the supplies from Great Britain.

The Shipping Trade.

During the part of the War dealt with in this chapter shipping statistics show a great decrease in the utilization of the Danish fleet, and at the same time an exceedingly heavy increase in freight earnings.[1]

In 1914 the war losses suffered by the Danish mercantile marine amounted to six ships of 6,800 tons, in 1915 to twenty-three ships of 12,700, and in 1916 to fifty-seven ships of 37,200, or a total of 56,700 tons, chiefly steam vessels, of which the total tonnage at the end of 1913 had been 421,500, and at the end of 1916, 412,100; so that by far the greater part of the tonnage lost had been replaced by new construction or by purchases from abroad. Furthermore,

[1] Cf. the table on page 474 which also comprises a freight index calculated on the basis of the quantities transported and the amount of the freight income, the figures of the freight index indicating the changes in the average freight rate per ton of goods transported.

during these years the Danish mercantile fleet had been augmented by about 30,000 tons of sailing vessels and by about the same tonnage of motor ships, whereby the total tonnage at the end of 1916 became somewhat larger than at the end of 1913. Not until 1917 and 1918 was the total greatly reduced. The reduction of cargo totals was, therefore, due to other causes, namely the increasing difficulties in obtaining supplies because of the scarcity of goods, and the increasing use of neutral shipping by the Allies. Thus the spring of 1916 first saw the demand for return cargoes and "duty voyages" made by Great Britain on neutral vessels bunkering in British ports by virtue of her coal monopoly. As a rule these "duty voyages" took the form of carrying coal to France or to another of Great Britain's allies at maximum freight rates fixed by the British Government. Toward the end of the year duty voyages with coal from England to a port in southern France, e.g., Bordeaux, and a return voyage by way of Spain were demanded. As an example, such a double voyage was demanded in return for the permission to make one coal-carrying trip from England to Denmark. By an ordinance of October 6, 1915, the Home Office prohibited the sale of Danish vessels to foreign countries; dispensations from this prohibition might, however, be given on condition that the proceeds of the sale were used for new construction, so that the Danish tonnage, as a whole, should not be reduced.

But the Government also considered it reasonable that shipowners who had obtained extraordinarily large profits on account of the high freight rates, which were paid by the whole community through the greatly increased prices of a number of the most important commodities, grain, fodders, coal, etc., should return part of these profits to the community in some form or other.

Pursuant to the Act of May 12, 1916, which dealt with the connection between the shipping trade and the most essential supplies of the country, the shipping trade was, in 1916, to contribute to the Treasury, in part in tonnage and in part in money, an amount fixed at rather more than kr. 11,000,000 for the whole year. As previously mentioned, the expenses incidental to a stabilization of the price of corn—subsidies to the producers of rye and pork, etc.—were paid out of this sum, while the tonnage placed at the disposal of the Government was used to carry home coal and coke at reduced freights.

The further carrying through of the principles of the Act was, as provided in the Act, undertaken by a Shipping Committee which, at the coming into force of the North Sea blockade, took over the management of the whole Danish mercantile marine.

4. Prices, Temporary Allowances on Account of the High Cost of Living, and Housing Legislation.

Grants for the Relief of the High Cost of Living.

In the course of 1915 and 1916 the retail price-index number rose to 116 and 136 and the wholesale price-index number to 127 and 178, as calculated for the months of July of the years in question. The aid given to those who had been hit especially hard, namely, "to families placed in a difficult position on account of conscription for military service," and "to persons left without employment by exceptional causes" (acts of August 7 and October 2, 1914), as also the additional grants to widows and old-age pensioners and others, were no longer deemed adequate.

By an act of December 22, 1915, concerning local arrangements to meet the high cost of living, the local districts were authorized to make arrangements to meet the effects of the high prices both by direct grants of money and by supplying goods, either gratuitously or at reduced prices, to the poor and impecunious inhabitants of the districts concerned. To cover the incidental expense the local district councils were permitted to levy extraordinary rates by means of a uniform increase in the rates, while the Government paid a subsidy out of the revenue from the war taxes. The Act of 1915 was prolonged by later acts which, on the whole, were on the same lines. Under these acts the district councils were empowered to distribute, directly or indirectly, victuals, fuel, and necessary garments, gratuitously or at reduced prices, just as they might grant money to necessitous persons. But besides this aid to some of the inhabitants of the district the act also provided that all the inhabitants might be supplied with the most essential commodities, or special kinds of such commodities at reasonable prices.

Housing Conditions

Difficulties as to dwelling houses first appeared in the large towns, mostly because the favorable trade conditions tempted the popula-

tion to move to these towns. The extremely high price of building materials and the difficulties in connection with obtaining loans which had prevailed for many years had suspended building, in consequence of which the purpose of the measure taken was, first, to check the rise in house rent, and next, to counteract such a tendency by undertaking municipal building.

By an act of June 9, 1916, it was thus provided that the town councils might appoint rent committees to see to it that rents were not unreasonably increased, the committees having to decide whether rents were to be increased at all, and in case they were—the extent of the increase. At the same time an act of July 3, 1916, allowed municipalities to grant rate reliefs for new dwelling houses.

5. Finances.

The increase in prices and freight rates, the high activity of the industrial world, the sales of horses and cattle, the great profits of commerce and insurance, coupled with the increasing difficulty in obtaining employment for earnings—called "homeless money"—all tended to cause an increase in the business on the Stock Exchange and a rise in the prices of Stock Exchange securities. These increases provided the basis for a special tax on this business, and by an act of December 20, 1915, a special stamp duty on transfers of shares, etc., was introduced, amounting to kr. 0.40 on each kr. 200 of the total value of the securities transferred; and this was increased by an act of August 19, 1916, to kr. 0.80. The revenue from this tax for the fiscal year 1916-1917 was estimated at kr. 2,000,000; but the actual revenue was kr. 14,500,000. In 1916 the turnover during the ordinary exchange hours of the Copenhagen Exchange was kr. 75,000,000 in bonds and fully kr. 550,000,000 in shares, as against kr. 20,000,000 and 230,000,000, respectively, in 1913.

The Balance of Trade.

The return to Denmark of both bonds and shares which commenced immediately after the outbreak of the War was partly caused by the balance of trade in our favor and the great earnings of the shipping business, and partly by the flight of capital from the belligerent countries. During the years 1915 and 1916 the gross proceeds of foreign freight earnings thus exceeded the surplus imports by about kr. 550,000,000. If to this is added the profits of

commerce, insurance, etc., abroad, and the $25,000,000 which the Government received for the cession of the Danish West Indies to the United States on August 4, 1916, a total of kr. 400,000,000, and the amount of the flight of foreign capital to Denmark, kr. 50,000,000, an aggregate of kr. 1,000,000,000 is obtained; of which kr. 50,000,000 must be considered as having been applied to the payment of interest and installments on debts, and kr. 200,000,000 to the purchase of coal, etc., for vessels employed in foreign trades. The remainder amounts to about kr. 750,000,000. Of this about kr. 500,000,000 may be supposed to have been used for the repurchase of Danish securities in foreign countries or for the purchase of foreign securities: about kr. 50,000,000 for an actual increase of the amounts due to the banks from abroad, about kr. 130,000,000 will be found to have been offered as loans to foreign banks during the two preceding years, and the remaining kr. 70,000,000 was thus made available for purchases of securities or the creation of other claims on foreign countries, or for the payment for goods ordered for delivery later on.

Rates of Exchange.

As mentioned in the last chapter, this heavy influx of foreign media of exchange caused a reduction in the rates of exchange of sterling and dollars, beginning at the end of February, 1915; and about September 1, 1915, sterling went below its old gold par value, while the dollar did not go below its former gold par value until the end of November, 1915. Thereafter the rates steadily decreased until the middle of May, 1916, when sterling was quoted at 15.35 (par of exchange 18.16) and the dollar at 3.30 (par of exchange 3.73); but from that time the rates again commenced to rise. Sterling reached its highest at the beginning of September, 1916, viz., 17.65, when, at the same time, the dollar was quoted at 3.72; and at the time when the North Sea blockade was declared (February 1, 1917) the Copenhagen quotation for sterling was 17.30 and for the dollar 3.66.

The Expansion of Credits.

It is an undoubted fact that the increase in the granting of loans by the Danish banks, the aggregate advances of which, at the end of 1914, amounted to about kr. 900,000,000, but which, at the end of

1916, had reached about kr. 1,600,000,000, was the main cause of the maintenance of prices and rates of exchange; and it is also a fact that only the more unfavorable conditions of the leading western exchanges caused the krone to rise above its old gold par value. But in Sweden, and for a time also in Norway, the rates of exchange of sterling and the dollar were lower than in this country, and as the Monetary Union between these two countries and Denmark had virtually been put out of operation by the suspension of the Gold Standard and the embargo on gold, it resulted in an adverse rate of exchange for the Danish krone in relation to the kroner of the two neighboring countries.

It was especially this "adverse agio" in relation to the Swedish krone which occupied our minds, partly because our imports from Sweden were from four to five times as great as our imports from Norway, and partly because the difference between Danish and Swedish kroner was much larger than that between Danish and Norwegian kroner. During the autumn of 1914 the rate of exchange of sterling (Swedish and Norwegian kroner were not quoted in Copenhagen until after and including October 1, 1918) in this country was rather lower than in the two other countries; it was, therefore, only natural that these countries resorted to Copenhagen as a financial intermediate station for obtaining foreign exchange; and it also developed that the return of Swedish notes which, in the financial year 1913-1914, of the National Bank, amounted to kr. 359.00, during 1914-1915 amounted to more than kr. 7,500,000. There was also some increase in the return of Norwegian notes. But after January 1, 1915, conditions were reversed; from then on the rate of exchange of sterling in this country was constantly highest, and the result very naturally was that Danish notes, during the suspension of the Gold Standard, to an increasing extent went to Sweden and Norway as payments of debts and for the purchase of foreign moneys in these two countries. During the bank year 1914-1915 the National Bank had to redeem more than kr. 53,000,000 of Danish notes from the National Bank of Sweden, and more than kr. 10,000,-000 from the Bank of Norway. As part of the payment of these debts kr. 13,300,000 worth of gold was sent to Sweden, and kr. 17,300,000 worth to Norway during this bank year. The movement was continued during the next bank year with almost the same amount of notes, and gold to the value of kr. 15,000,000 was sent to the Bank

of Norway. But, in the meantime, Sweden had refused to accept the gold.

When, by an act of February 8, 1916, Sweden abrogated the obligation of the National Bank to purchase gold at the price fixed in the Currency Act and the right of private persons to demand that their gold be coined into money, this stand was taken less out of regard to any "note-policy" than from a "goods-policy," the Swedish Government feeling that the claims on Sweden caused by the transmission of gold would reduce the already scarce supply of commodities in Sweden and cause a rise in the price level of that country; but, besides, the purpose of this arrangement was to attempt to compel the western Powers, in particular, to send goods instead of gold as payment for Swedish exports.

Now these points of view were only of slight interest to Denmark, partly because better relations existed between Denmark and the western Powers than between the latter and Sweden, and partly because Denmark did not entertain the same fears of an excessive supply of gold as Sweden did. On the other hand, there was naturally no reason, so far as Denmark was concerned, to maintain a statutory price of gold which was higher than the price in the open market. Thus the question had two aspects: Partly the shutting out of the supply of gold, and partly the desire of the banks of issue not to pay the price fixed by the Currency Act, but only the price of gold current in the open market. As mentioned above, the first consideration was preponderant so far as Sweden was concerned; and, as one of the parties to the Monetary Union could not refuse to accept the gold coin of the other two countries at its nominal value, and as the prohibition of the import of gold during the existence of the union—which there was no desire to abolish—could not prevent the import of gold coin, the arrangement which had been introduced in Sweden by an act of February 8, in Denmark by an act of April 17, 1916, and in Norway by an act of April 15, 1916, was supplemented by an agreement between the three national banks to the effect that they were not to ship coined gold to each other except after further consultation. Thus Sweden had made it quite possible to prevent the influx of gold, but the dispensation from the obligation to purchase gold bullion at the fixed price contained no prohibition either for the Swedish Riksbank or for the Danish National Bank against purchasing gold; the banks were allowed to fix the price themselves.

The Danish National Bank did not decline to buy any gold offered it, but bought it at a discount of as much as 5 per cent; and the whole strange arrangement must indubitably be considered as a friendly act toward the Swedish Riksbank and a link in the endeavor to avoid a total annihilation of the Scandinavian Monetary Union.

The "adverse agio" could now freely develop in accordance with the natural rates of exchange of the moneys of the three countries.

Note Circulation.

Discrepancies between the value of notes and gold must chiefly be due to different monetary policies, and if a comparison be made between Denmark and Sweden the Danish monetary policy gave rise to a considerably greater expansion of credits than the Swedish.

It has already been mentioned above that during 1915 and 1916 the private banks increased their advances by about 75 per cent. At the same time the National Bank, mainly because of loans to foreign banks and purchases of gold, increased the circulation of notes (which at the end of 1914 was kr. 207,000,000) to kr. 285,000,000 at the end of December, 1916, or by about 40 per cent; which comparatively small increase was mainly due to the fact that the private banks had increased the amount of their accounts current with the National Bank about kr. 50,000,000.

The increase of the circulation of notes and the consequent increase of the chances of the private banks to *expend* their credits independently of the National Bank was, therefore, chiefly due to foreign relations. The first of the loans granted was arranged in December, 1915, the Deutsche Reichsbank receiving kr. 30,000,000, while at the same time the Danish National Bank purchased gold to the value of kr. 15,000,000. In the course of 1916 German banks received loans of kr. 40,000,000 and British and French banks a total of kr. 60,000,000, the National Bank taking over kr. 62,500,000 of the aggregate kr. 130,000,000, and the private banks the remainder. The reasons for entering upon these loans were partly a disinclination to continue accepting German marks, which were steadily decreasing in value, and partly the desire to meet Germany's request for a credit, which could make it possible for her to continue purchasing goods in this country. On the other hand, the National Bank which, from a banking point of view, must have considered the amounts in question exceedingly large, did not deem it

advisable to oppose this request on the part of Germany. In order not to deviate from the neutrality on this point either, banks of the western Powers received similar loans.

The National Bank naturally did not doubt that these loans would be the cause of an increase of prices in this country, but the bank considered foreign political relations so all-important that it deemed it right to disregard the danger to Danish finances implicit in these advances. For the present the krone, however, as mentioned, maintained its stand above the old par value; and from March 2, 1916, the National Bank declared itself again ready to redeem notes in gold. But the act providing dispensation still remained in force.

CHAPTER IV

FROM FEBRUARY, 1917, TO THE ARMISTICE

1. Commercial Policy during the Blockade.

The German Note of January 31, 1917.

When, at the beginning of January, 1917, the Allies had rejected President Wilson's "peace note" of December 19, 1916, and also had rejected the proposal of peace negotiations put forward by the Central Powers, Germany resorted to unrestricted U-boat warfare by declaring on January 31, 1917, that in certain specified waters around Great Britain, France, and Italy, all vessels, whether hostile or neutral, and whether carrying contraband goods or not, and even vessels plying between two neutral ports would be prevented from continuing their voyages "by all means at disposal," which practically meant that such vessels would be torpedoed without warning. By this means the Central Powers thought it possible to starve Great Britain.

In reply to this new violation of the rights of neutral countries, the United States on February 3 broke off diplomatic relations with the Central Powers and suggested that the other neutral countries should do the same. To this the Danish Government replied that both formally and actually there existed such a great difference between the positions of Denmark and the U.S.A. that no comparison was possible, and that the governments of the three Scandinavian countries were consulting in Stockholm as to the stand they—on the basis of international law—were to take toward Germany's new regulations. As a result of this consultation the three Scandinavian countries, on February 13, sent uniform notes to the Central Powers protesting against the declaration of January 31.

Thereby a formally legal attitude was maintained; but, long before this, deliberations and negotiations were commenced by and between the Government and Denmark's leading business men in regard to the possibility of a reopening of navigation across the North Sea, and to the difficulties as to that share of the country's agricultural products which, according to the rules in force, should go to Great Britain, but which, under the prevailing circumstances, could not be shipped to her.

Shipping ceased completely as owners dared not send their vessels to sea; the insurance companies discontinued accepting risks; seamen would not expose themselves to the dangers of unrestricted U-boat warfare; and, thereby, Denmark was placed in a very difficult position. For when we could no longer provide Great Britain with food she had no interest in permitting us to continue importing coal, and even less in permitting imports of fodders or other commodities from overseas countries, so that not only agricultural production but also industrial production must, in the end, be brought to an almost complete standstill.

It was, however, a fact that the German note of January 31 had still left it possible to obtain supplies from overseas, as a route had been left open outside the closed waters—north of the Faroe Islands and down along the western coast of Norway. Yet it was also made a condition that the use of this route by Danish vessels should depend on Great Britain's relinquishing her demand that vessels should put in at Kirkwall in the Orkneys for examination, and permitting such examinations—if they must be maintained—to take place in some overseas port.

Negotiations with Great Britain.

But it was to be taken for granted that Great Britain, in return for such an arrangement, would demand a supply of foodstuffs; and in anticipation of this the Danish Government, immediately after the declaration of the blockade, provided that the apportionment of agricultural exports southward and westward should be maintained, but that agricultural produce destined for Great Britain should be stored in this country for the time being.

By an Order in Council dated February 16 Great Britain had declared that vessels en route to neutral ports from which there was access to enemy territory would be held to be carrying enemy goods if they did not put into a port in one of the Allied countries for examination, and that failure to do so would constitute ample grounds for seizing such ships and cargoes. Instead of facilitating shipping, Great Britain thus made it far more difficult; and, at first, Denmark succeeded in solving the very important question of examination in some non-British port only in so far as the largest steamship companies were concerned, and only on condition that each and every part of the cargo should be covered by a license per-

mitting transshipment to Denmark, issued by the British authorities —the so-called "letter of assurance"—and be covered for shipment in the opposite direction by a certificate of origin, etc. The examination was then to take place at Halifax or in the Bermudas. At the same time, i.e., about February 10, the British Government stated that vessels leaving a Scandinavian or Dutch port after the issuing of the blockade declaration and arriving at a British port with a cargo of "approved goods," i.e., foodstuffs, nitrates, iron and steel, pit-props, raw materials for the manufacture of munitions of war, etc., would obtain licenses to load return cargoes of coal, but only to the country whose flag they were flying. This provision was, on April 10, made more rigorous: All vessels arriving in Great Britain from the west were to convey cargoes only to the country whose flag they were flying, a provision which made it exceedingly difficult for Denmark and Sweden to procure the necessary tonnage for their supplies.

Negotiations with Germany.

Toward Germany we could only—now as before—maintain that the one condition that could enable Germany to obtain any supplies of agricultural produce from this country was that Great Britain, by obtaining her proportion of our agricultural production, should have an interest in permitting continuous supplies of overseas fodders to reach us. But, furthermore, Denmark could hold out a promise to Germany that she would continue to grant exemptions from her embargo on horses, and to meet Germany's wishes for increased loans from Danish banks. On this basis there seems to have been a possibility of reaching an agreement regarding free navigation for ships carrying Danish agricultural produce through the danger zone to some specified British port. But when the matter became public the German Government drew back; and in June, after lengthy negotiations, we obtained only free navigation outside the danger zone. Danish vessels carrying exports were sent via Bergen where they received instructions from the British authorities as to the routes they were to follow in order to be protected by the British naval forces.

When, after April 10, 1917, Great Britain had tightened up the provisions regarding our shipping trade, and when, at the same time, the duty voyage regulations became more stringent and the

requisitioning of Danish vessels more general, a large trade delegation went to England to negotiate for supplies for this country. From there some members of the delegation went to Paris and Berlin. The delegation comprised representatives of commerce, industry, agriculture, and banking, thus being quite representative of a "General Committee of the Trades" which was appointed on February 27, 1917, for the purpose of securing the necessary coöperation and joint action of the great business interests in negotiations with foreign countries.

The Shipping Agreements with Great Britain and Germany.

The negotiations regarding our carrying trade seem to have gone smoothest. The duty voyages and the requisitioning were, so to speak, brought into a fixed form through an agreement entered into by and between the British Government and the Shipping Committee on June 20, 1917, according to which Great Britain held out promises of undertaking to make at Halifax and elsewhere the quickest and best examinations possible under the circumstances, always provided that the vessels concerned only carried approved cargoes. In addition Great Britain offered 100,000 tons of coal per month. In return Denmark had to turn over a total of 200,000 tons, or about one-fourth of her mercantile marine for the use of Great Britain. The remainder of the fleet was thereafter to be exempt, on condition that the part of it which was not employed in conveying imports to Denmark would be available to the Allies outside the danger zone. This condition had, however, consequences more far-reaching than was anticipated; for supplies to Denmark decreased heavily, mainly on account of the interference of the United States when, in April, that country had declared war on Germany.

At the same time an understanding with Germany was arrived at, according to which the carrying trade from America was made free, except in so far as actual contraband of war was concerned. Furthermore, foodstuffs of Danish origin, inclusive of Danish fish which, directly or indirectly, was transported to Great Britain in Danish vessels, were to be considered free goods, but only outside the danger zone. In return Germany was, as hitherto, to have her proportion of Danish agricultural exports, and exemptions from the embargo on horses were still to be granted.

In the beginning of July Great Britain refused to issue letters of

assurance for vessels carrying stock foods to Denmark, and discontinued permits for the examination of such vessels at Halifax; consequently, imports of these goods were reduced to a minimum.

At the same time (July 9) the first American embargo was imposed, comprising, amongst other things, grain and fodders. And even though it was maintained that its purpose was to control and distribute rather than prevent exporting, it soon proved practically impossible for this country to obtain exemptions from the embargo. The reasons for this were set forth by the Government of the United States on July 24 in a memorandum to neutrals, in which it was explained that the principal object of the United States was to supply the Allies, and, thereafter, neutrals so far as there was anything left over. The United States would, furthermore, consider supplies sent to the Central Powers, in any form, as a reduction of the supplies available for neutrals, for which no compensation by means of imports from the United States could be expected. For the time being the United States would, however, presume that we were able to provide ourselves with the necessary foodstuffs, and as it was desired to prevent, by all means, stock food from America being used for the feeding of live stock which was to be exported to Germany, it was impossible to obtain exemptions from the embargo, even for ships which had already been loaded. The United States always returned to the question of the exports of cattle and horses, and a reference to the fact that the suspension of the supply of fodder would necessitate increased sales of such live stock was futile.

But the embargo was also maintained in the case of goods other than grain and fodders and even in the case of petroleum, which was comprised in the "fish agreement" with Great Britain. For by such an agreement the United States did not consider itself bound, as it had not been a party to the agreement at the time when it was entered into. When, in September, the United States also began to demand duty voyages of Danish vessels in return for bunker coal, a delegation was sent to America to negotiate as to this, and also as to commercial conditions in general. The delegation did not, however, gain anything, and had to return without having attained its object. On October 4, 1917, Great Britain took the decisive step and stopped all exports—with the sole exception of coal exports to Denmark—and suspended the trade agreement, though the obligations undertaken by the organizations continued to be in force.

Consequently, supplies from the west ceased completely; and the country was, therefore, obliged to try to procure the goods which were most needed from the Central Powers and from Sweden and Norway.

The Interchange of Goods with the Central Powers.

Besides the above-mentioned negotiations which took place in London and Paris, negotiations were also carried on in Berlin. These negotiations were, however, only preparatory, in so far as later supplementary conferences finally brought about the first of the so-called "credit agreements," in force from August 1 to November 30, 1917. The credit was extended by the Danish banks as an ordinary commercial credit, in such manner that whenever goods to the value of kr. 8,000,000 were imported from Germany, gold to the value of kr. 3,000,000 was to be deposited in this country and a credit of kr. 4,000,000 opened. We thereby attained the object of compelling Germany to export to this country, which, so far as fuel and salt were concerned, was of vital importance, salt being needed for the production of pork and butter. By later supplements to this agreement an equal apportioning of the exports of pork and butter was arrived at, so that the two belligerent groups received equal proportions of the quantities available for export, while it had formerly been a matter of endeavoring to export in the same proportion as before the War. This increase in exports southward met a strong desire on the part of Germany, and was natural now, when the supplies of fodders from the west had ceased. The value of the goods exported to Germany during the four months has been estimated at kr. 150,000,000, with imports at kr. 80,000,000. Of the difference,—kr. 70,000,000,—kr. 30,000,000 was to be covered by a consignment of gold, while credits were to be allowed for the remaining kr. 40,000,000. The second credit agreement, which was in force from December 1, 1917, to March 31, 1918, was concluded in Copenhagen. Again, it was chiefly coal, salt, iron, and shipbuilding materials that were to be furnished us, and the aggregate value of imports was estimated at kr. 90,000,000, and exports at kr. 140,000,000. Of the difference, kr. 15,000,000 was to be made good in gold, and for the remainder credits were to be granted by Danish banks in a manner similar to that provided for in the previous agreement. In its case, however, Germany had been the sole debtor, while

Austria-Hungary also now became a direct party to the agreement. In spite of its hesitation as regards the effect of these credits on prices in general in this country, the National Bank considered itself obliged to submit to the positive desire expressed by the country's business interests, namely, that these credits should be granted as set forth in a letter from the General Committee of the Trades. It must be considered an expression of the political necessity of this agreement that the Government, on May 2, 1918, guaranteed the banks advancing the loans against losses incidental to the loans up to kr. 15,000,000.

When, on March 31, 1918, the second credit agreement expired, it was renewed for four months on terms corresponding to those previously in force. On account of the increasing scarcity of goods in the hands of both contracting parties, the quantities of goods interchanged, however, decreased steadily, so that the value—in spite of considerable rises in prices—under the third agreement amounted only to kr. 100,000,000 for our exports southward, while imports now had a value of kr. 75,000,000. Of the difference, kr. 7,500,000 was to be covered by gold and kr. 17,500,000 by credits. Finally, under the fourth agreement, which held until November 30, 1918, the exports amounted to kr. 90,000,000, the imports to kr. 75,000,000, and the difference was to be covered by gold to the extent of kr. 4,500,000, and credits for kr. 10,500,000. Then came the armistice, by which Germany was prohibited from concluding agreements for the interchange of goods with neutral countries.

The Inter-Scandinavian Interchange of Goods.

The question of an interchange of goods with Sweden and Norway was raised immediately after the declaration of the blockade, as the agricultural produce which, for the time being, could not be conveyed to Great Britain might very well be used in Sweden, in particular. Unofficial negotiations resulted in a meeting in Stockholm in March, 1917, on the initiative of Sweden, at which meeting trade representatives from the three Scandinavian countries told of their respective countries' needs in commodities, and it was agreed that they should help one another to the greatest possible extent, even if it meant privation for the country rendering the assistance, and even should no immediate compensation be given by the country receiving it. The interchange with Sweden was soon put into opera-

tion, and considerable quantities of butter and pork were exported to that country, Denmark, in return, receiving a quantity of raw materials for industrial purposes.

On April 30, 1918, Norway, and on May 29, 1918, Sweden, concluded trade agreements with the United States; but the interest of the two countries in the supplies of foodstuffs from Denmark was, of course, not diminished for that reason; and Denmark's interest in the supply of raw materials from the two countries was also unabated. Not until September 18, 1918, did Denmark succeed in concluding a similar agreement, but the improvement of the conditions of supply which was expected did not materialize. The American agreements even impeded the inter-Scandinavian interchange of goods, as they contained the provision that exports from this country to other countries must not take place if such exports, directly or indirectly, served to release exports to Germany or her Allies. The provisions relating to this point in the Anglo-Danish agreement of November 19, 1915, were to the effect that the trade organizations—but only so far as manufactured goods were concerned—were allowed to permit exports of certain specified articles, in consideration of a declaration guaranteeing against reëxport, which declaration was to be legalized by the Swedish or Norwegian authorities. But it was the American agreement which first prohibited the reëxportation of imported finished goods, and for the export of domestic goods demanded guarantees which the Allies also claimed the right to visé. By then, too, the armistice had come and pressure had begun to relax.

The Agreement with the United States of September 18, 1918.

By the armistice we also avoided having to live under the American agreement of September 18, 1918, for any length of time. For not only were the provisions of the agreement calling for the turning over of Danish tonnage and interference with the trader's right of disposal exceedingly drastic, but it also seemed to be very difficult, in return, to obtain those supplies from the Allies to which we were entitled according to the agreement. Simultaneously the Anglo-Danish agreement had again come into force on October 3, 1918. But the Inter-Allied administration which had now been brought into being was functioning so ponderously through its Allied Blockade Committee in London, and its Inter-Allied Com-

mittee in Copenhagen (consisting of the commercial *attachés* of the various countries), with inquiries from The War Trade Board in Washington to London, and thence to Copenhagen, that even if the Allies really intended to carry out their obligations according to the agreement, it meant, at best, a great waste of time to work through it.

This agreement consisted of three parts, viz., an agreement between The War Trade Board and the Shipping Committee regarding the delivery of tonnage, an agreement with the Chamber of Manufacturers and the Committee of the Merchants' Guild regarding supplies, and finally, an agreement with the Danish Government direct regarding a reduction of exports southward. According to the tonnage agreement Denmark had to hand over 265,000 tons of steam and motor ships to the United States, and 200,000 tons to Great Britain, which would leave about 325,000 tons at her own disposal. In addition, some 46,000 tons of sailing tonnage were handed over. By the agreement with the Danish Government the exports to the Central Powers were limited to certain fixed quantities, such as a total of 400 tons of butter, pork, eggs, and cheese a week during the winter half year, and 600 tons during the summer half year. But, first of all, 30 per cent of what was available for export had to be exported to Sweden and Norway. Of eggs, however, only 25 per cent was called for. Of cattle up to 4,000 head a week could be sent south from January to October, and 6,000 head in November and December; 35 per cent had to be exported to Sweden and Norway. Similarly there were limitations on exports of horses and fish, the maximum quantities permitted being 2,500 horses per month and 25,000 tons of fish a year. The exports of all goods were confined to the quantities exported during 1917; and the export of fruit, metals, various machines, feathers, matches, rags, etc., was absolutely prohibited.

The demand that exports to the Central Powers be limited to certain fixed quantities—a demand which the Allies had hitherto tried vainly to enforce—was of no practical importance in so much as not even the permitted quantities could be procured for export. Thus, the fact was that it was the stoppage of the supplies of fodder, and not the commercial agreement, which brought the Danish agricultural exports to a close, and the Allies tried, further, to attain this object through a provision in the agreement to the effect

that in return for the 33,000 tons of nitrate fertilizer which we had been permitted to import we were to deliver 100,000 tons of grain to Norway.

In return for having given up more than half of our tonnage and for having made ourselves liable to deliver so much grain that—if the provision had not been rescinded at the end of the War—it seemed very uncertain how we were to provide breadstuffs for our own population, we obtained the above-mentioned quantity of fertilizers and a promise of a number of other commodities, in small rations, certainly, but still of great importance under the prevailing circumstances. It must especially be said that the agreement secured a supply of petroleum, of which a part might be used for our fishing boats on condition that the Central Powers delivered the same quantity. For the rest, none of the things imported were to be used in the manufacture of goods which were to be exported southward, nor to neutral countries, unless these countries gave guarantees that, neither directly nor indirectly, would this involve exports to the Central Powers. These provisions regarding the indirect use of goods, the so-called "additional clauses," were peculiar to the Danish-American agreement, and found expression, for instance, in the prohibition against the use of cotton goods and cork for fishing purposes. All this, of course, was very difficult to control; and in order to facilitate control the Minister of Justice provided that all persons who desired to export were to apply to the Committee of the Merchants' Guild or to the Chamber of Manufacturers for the necessary certificates that the provisions of the agreements had been complied with, before the permission to export could be granted by the Ministry.

The list of commodities dealt with in the agreement did not comprise grain and fodders, the importation of which was, therefore, still blocked, nor fuel, which was imported from Great Britain, and for which Great Britain, probably out of regard for the financial interests involved, was much inclined to grant permission of export. But by the agreement our imports of all goods, taken as a whole, apart from grain, fodders, and fuel, were reduced to about one-fourth of the normal quantity, which gives an impression of the very serious predicament in which we would find ourselves if the agreement were brought into force.

Therefore, it was very essential that the tonnage which was left

at our disposal should be protected against being torpedoed by the German naval forces; and to prevent this we had succeeded in concluding an agreement with Germany in August-September, 1918. For Germany already, on July 16, 1917, supplementing her prize ordinances, had announced that neutral vessels which were mainly owned by subjects of hostile countries, or which were chartered by a hostile government, or which were sailing in the interests of hostile countries, should be considered hostile vessels. Thereby the Danish tonnage seized by the Allies was exposed to destruction until the above-mentioned agreement regarding the so-called "Geleitscheine" had been concluded. According to this agreement Germany issued safe conducts for the vessels which carried supplies to Denmark, and the agreement was to be considered part of the current interchange-of-goods agreement.

The Carrying Trade.

The above-mentioned seizures of Danish tonnage, the scarcity of goods or the direct stoppage of supplies, and the fears inspired by dangerous navigation brought about a reduction of transportation by sea, which will appear from the figures given below:

	Total Tonnage and Value of Cargoes Carried by Danish Vessels Plying between Denmark and Other Countries				*Total Revenue from All Foreign Trade*	
	Incoming		*Outgoing*			
	Gross freights, in 1,000 tons	*Earnings, in million kroner*	*Gross freights, in 1,000 tons*	*Earnings, in million kroner*	*In million kroner*	*Freight-rate-index number*
1913	2,421	23	942	9	119	100
1914	2,294	32	883	12	102	104
1915	2,670	105	927	14	234	284
1916	1,931	143	721	15	395	495
1917	968	146	390	23	465	994
1918	920	122	197	7	563	1,049
1919	1,690	229	351	12	565	920
1920	1,424	183	492	23	553	850

Note. In above totals are included all revenues whatsoever, whether derived from trade between Denmark and foreign countries, between different foreign countries, or from time-chartering in terms of gross freight receipts.

In other words, it appears that the in- and outgoing cargo tonnage during 1917 was reduced to half the total for 1916; and during 1918 the outgoing tonnage was again reduced to half the 1917 figure, or to one-fifth of the total for 1913.

Sailings were resumed when war risk insurance had again commenced to be effective, but, indeed, at premiums which, for a return voyage, Denmark-England-Denmark, had gradually been increased from a trifling percentage before the commencement of the blockade to 24 per cent in May, 1917; and also after an agreement had been arrived at with the seamen that meant a considerable increase in their war risk insurance and in their wages.

In 1917 the war losses of the Danish mercantile marine amounted to 142 ships of 92,000 tons, and in 1918 to 36 ships of 23,500. As it appeared that the steamship companies which had lost vessels showed a tendency to go into voluntary liquidation, whereby the shareholders divided the insurance among themselves, and as this, at a time when there were many losses, might bring about a lasting reduction of the Danish fleet, an act of May 18, 1917, provided that the amounts of compensation paid to the owners in case of total losses should be applied to the purchase of new vessels or held in reserve. A prohibition embodied in an ordinance issued by the Home Office on June 16, 1917, forbidding the sale abroad of Danish vessels, or Danish or foreign vessels under construction in Danish shipyards, without the consent of the Home Office also had the same effect.

From an aggregate tonnage of steam, motor, and sailing vessels of 595,000 at the end of 1916 the fleet had been reduced by war losses to 501,000 tons at the end of 1917, and to 471,000 tons at the end of 1918. At the end of 1920 the fleet had again reached a tonnage of 593,000. Thus it was, at most, reduced by one-fifth. At the same time freight rates were increasing, both open rates and the maximum rates fixed by the Allies, to such an extent that the freight-index figure which for 1916 had stood at 495, in 1917 reached 994, and in 1918, 1,049.

2. The Government and the Home Market.

The Interchange of Goods with Foreign Countries.

In order fairly to apportion stocks on hand, and also in order to produce, for as long as possible, a surplus of foodstuffs for export, a number of regulating and rationing arrangements were instituted; and, at the same time, profits earned by the sale of commodities abroad were applied to the reduction of the price of the commodity in question for domestic consumption. Often the domestic prices were

reduced by subsidies in various forms from the Government or local councils; and, at the same time, maximum prices, a variety of provisions making for limitation of profits, and repeated sales of the same goods ("chain transactions"), etc., were in force.

Immediately after the German declaration of blockade stock was taken of a number of important commodities, to make it possible to estimate how far the supplies on hand would last if the U-boat warfare should bring about a suspension of navigation. This stock taking, the result of which was known at the beginning of March, showed, so far as grain and fodders were concerned, that it was to be feared that in case of a continued blockade difficulties would appear toward the end of the harvest year if no special measures were taken. During the first days of March the Government took over all supplies of foreign wheat, and in April all supplies of domestic grain stored by the farmers, so that these supplies could not be removed without the permission of the local grain inspectors, to whom reports regarding stocks on hand were to be sent.

As to fodder grain (barley, mixed grain, and oats) farmers were permitted to retain the necessary quantities for sowing purposes, and 200 kilos of barley and mixed grain for all swine over four weeks old; and, if a farmer did not have a sufficient quantity of oats on hand, a quantity of mixed grain sufficient to feed his horses. The remainder had to be given up at the fixed price (kr. 24.50) to the grain inspector, who was then to distribute the grain thus received among the farmers who were short of it.

The reason for this seizure of grain was that, according to the results of the stock taking in February, it was thought necessary to continue mixing rye flour with barley flour. The stock of barley was, however, not large, and on account of the stoppage in the supply of corn, brought about by the declaration of blockade, barley was in great demand.

The Rationing of Bread.

After April 1, 1917, the rationing of flour and bread was introduced; after that date purchases and sales of flour and bread could be made only on the presentation of bread tickets. The monthly ration was fixed at 8 kilos of rye bread and about 4 kilos of wheat bread, or the corresponding quantity of flour, to all persons regardless of age; and for persons engaged in hard bodily labor

additional rations of 4 kilos of rye bread. Millers were ordered not to deliver flour except for flour tickets, which the bakers obtained from the central administration for the rationing of tickets, the "Distributing Office," which was founded as a branch of the Department of Statistics. So long as millers could purchase grain in the open market any supervision of their real demand for flour tickets was, of course, very inefficient; consequently, the arrangement was completed on the beginning of the new harvest year, when the Government purchased all bread grain and took it to Government warehouses, from which no grain was delivered except for flour tickets.

Spirits and Beer.

In order to effect a saving in the raw materials used in the manufacture of spirits and, at the same time, a limitation in its consumption, the tax on spirits was materially increased. And a general prohibition was laid on the use of any kind of grain, fodder, potatoes, or fuel in the manufacture of spirits, with the exception of spirits for technical purposes; and maximum prices were also fixed for the various kinds of spirits.

As regards the production of beer, in which a considerable number of persons were employed, and which, solely for that reason, could not be restricted too severely, it was provided that the breweries producing taxable beer should be allowed to use only 80 per cent of the raw materials used in the preceding year, and for the production of tax-free beer not more than the same quantity; and, further, the stocks of the breweries, in barley and of malt, intended for export were seized and the barley used for seed.

The Grain Act of 1917.

As food conditions and the maintenance of farm stock became increasingly difficult the Secretary for Home Affairs appointed a committee of experts on April 4, with orders to submit a detailed report as to how the crop of 1917 should be applied, provided that the country was completely cut off from foreign supplies of provisions, fodders, and raw materials for the production of foodstuffs. The report of the committee formed the basis of the Grain Act of August 3, 1917; and the leading members of the committee became members of the "Food Council" provided for in the act.

The Grain Act of 1917 bound the farmers to sell all rye and wheat of the crop of 1917 (except screenings and the quantities necessary for seed) to the Government at a price of kr. 26 per 100 kilos, and, further, a certain fixed quantity of spring grain at kr. 23.00 per 100 kilos. Farmers who had delivered 450 kilos of rye and wheat for each kr. 1,000 of the value of their land were, however, exempted from delivering barley and oats, whereas otherwise these grains were to be delivered to the extent of 450 kilos of grain per kr. 1,000 of land value. The farmer was entitled to dispose of the remainder of the crop for his own purposes; but he could sell only to the Government which, in that case, paid an additional amount of kr. 2.00 per 100 kilos, in an endeavor to increase its aggregate supply of grain to 850,000 tons.

A great misfortune, however, befell the country. The crop of 1917 was very unsatisfactory, the harvest being even poorer than that of 1914; and in spite of all efforts the Food Council, to which the administration of the Grain Act was entrusted, did not succeed in increasing the stocks of the Government to much more than 550,000 tons, or about 300,000 tons less than the quantity estimated at the time when the act was passed. If, nevertheless, we got through the harvest year of 1917-1918 it was due to the rough grinding of the flour, the use of bran, and the consumption of stocks from previous years. Furthermore, the ration of wheat bread was reduced on October 1, 1917, from thirteen to nine tickets, and after January, 1918, to six tickets, each for 300 grams of bread or 240 grams of flour per month. In order to keep the price of rye bread unchanged, despite the increase in the price of grain, rye and barley were sold from the government warehouses at kr. 18.50 per 100 kilos, while the purchasing prices were kr. 26.00 and kr. 23.00, respectively. On the other hand, the government warehouse price of wheat was kr. 27.00, whereby a small amount was made good of the expenses incurred by the Government in the sale of rye and barley for the production of bread below the purchase price. The remainder was to be covered by the Treasury.

According to the same Grain Act breweries, malt houses, and distilleries were not allowed to purchase or use Danish grain other than that purchased from the Government, and this the breweries were only allowed to use in the manufacture of tax-free beer. They were, however, permitted to use the stocks of malt which they held for the

production of taxable beer, and also, during the whole of 1917, to purchase Danish malt for tax-free beer. Concurrent with these restrictions the tax on spirits was again increased greatly, i.e., on the most expensive liquors by kr. 7.50 per three-quarter liter bottle.

Finally, a part of the crop of 1917 was exchanged for Norwegian nitrates. By an act of March 7, 1918, the Home Secretary was empowered to purchase on behalf of the Government as much as 20,000 tons of Norwegian nitrate at a price of kr. 55 per 100 kilograms f.o.b., and to sell it to the farmers at a price of kr. 35.00. At the same time another act of the same date empowered the Home Secretary to sell to Norway as much as 20,000 tons of grain, to purchase this grain from the farmers at kr. 30 per kilogram, and if it should become necessary, to reduce the ration of rye bread. The exchange was effected at kr. 40 for the grain and kr. 55 for the nitrate, which was its market price. Before the War it had sold at the same price as Danish barley, or at kr. 15.

Immediately before the beginning of the period dealt with in the present chapter, the Home Secretary, on January 13, 1917, had prohibited the use of potatoes as fodder. It was only after great hesitation that the Government took this step, but the small crop had the result that hardly any potatoes were sent to the towns. This, of course, caused great difficulties, and the maximum price could not hold under the pressure of the demand. The capital was practically without potatoes for months.

The potato crop of 1917 was larger than that of 1916 but considerably less than the crops of 1914 and 1915, and conditions were, therefore, still difficult. The prohibition against using potatoes as a fodder was maintained, but a general permission was given to use 10 per cent of the crop for fodder up to October 1, 1917.

The Grain Act of 1918.

Like the Act of 1917 the Grain Act of 1918 fixed the value of the land as a basis for the grain assessment; but while, according to the former act, the same proportionate quantities were to be turned over by the small and the large estates, the Act of 1918 exempted the first kr. 3,000 of land value from the obligation; the fourth thousand was to turn over 5½ kilograms of grain or two swine of 70 kilograms; thereafter 5½ kilograms were to be delivered for each kr. 1,000 of land value by estates of a land value of

between kr. 4,000 and 30,000; 6½ kilograms by estates representing kr. 100,000 of land value; and 7 kilograms by the largest estates.

Like the Act of 1917 the Act of 1918 provided that all rye and wheat (except seed grain and screenings) had to be surrendered, as also spring grain, until the above-mentioned assessed quantity per kr. 1,000 in land value had been reached. It was estimated, too, that 765,000 tons would be added to the government stock. The price of winter barley and oats was fixed at kr. 26.00 and that of spring wheat and rye at kr. 23.00.

Bread, Flour, and Meal.

While, during the previous harvest year, efforts had been made only to maintain unchanged the price of rye bread—which had, however, been increased to about kr. 0.95 per 4 kilos on account of the increase in the costs of its production, the Grain Act of 1918 empowered the Home Secretary to dispose of the breadstuffs of the Government at such a price that a 4-kilo loaf of rye bread could be sold 15 to 16 öre cheaper than before; and, at the same time, the "High Cost of Living Act" of July 13, 1918, authorized a further reduction of 10 öre per 4 kilos.

Otherwise the rules in force for supplying the people with bread and flour remained essentially unchanged during the harvest year of 1918-1919. The ration of rye bread was still 8 kilos a month for each person and additional bread tickets; while the ration of wheat bread was increased in October, 1918, to seven and in November to eight tickets, each of 300 grams of bread or 240 grams of flour.

As had been the case in the preceding harvest year the breweries and distilleries could not purchase Danish grain except from the Government, under the Act of 1918. It was estimated from the quantity delivered to the breweries that they would be able to maintain a production corresponding to about 50 per cent of normal; and it was not until June, 1919, that an increase in production was made possible by new supplies from abroad.

During 1918-1919 the supply of potatoes was also regulated by the Grain Act, which empowered the Home Secretary to contract for the growing of potatoes for the Government. The potato harvest of 1918, however, yielded more than 11,000,000 kilograms; consequently, the potato supply presented no difficulties, and the Grain

Act of 1919 contained no provisions regarding the supply in the new harvest year.

When the blockade commenced, the Home Secretary prohibited all consumers from providing themselves with barley, mixed grain, corn, and fodder cake in excess of fourteen days' consumption. At the same time stock was taken of the quantities on hand, which proved that there were satisfactory stocks of fodder cake but a scarcity of corn. The Government, consequently, took over those quantities of fodder grain stored by the farmers which were not needed on their own farms.

The Production of Animal Foods.

The poor crop of 1917 coupled with the stoppage of the supplies of grain and fodders, which occurred in the middle of the year, almost brought the production of pork to a standstill. The number of swine, which was about 2,500,000 at the outbreak of the War, still amounted to about 2,000,000 when the blockade came into force; but after that it decreased steadily and greatly; and at the beginning of April, 1918, it numbered only a little more than 400,000. This reduction must, undoubtedly, be attributed to the energetic demands of the Food Council which urged that such a reduction was necessary, as otherwise the swine would starve out the population, and that if we had to choose between a scarcity of grain and a scarcity of fat we must choose the latter.

The rationing of pork and butter, which came into force after January 1, 1918, was necessary in order to secure a socially warrantable apportionment of the quantities of these commodities on hand, and also, and not least, in order to maintain the largest possible exports for as long as possible.

At the same time endeavors were made to encourage production through steadily increasing bonuses, or at least to meet the demand advanced by the farmers that the price of the pork which could be produced should correspond to the rise in grain prices. In the last chapter it was said that in addition to the subsidy to the pork producers through the fixing of the corn price, which was covered by the Government, and the maximum price of barley, the packing houses, since the autumn of 1916, had received a direct subsidy of 10 öre per kilogram for the first 5,000 swine supplied to the home market, and 14 öre for further deliveries. By the Grain Act of

August 3, 1917, this subsidy was increased to 32.5 öre per kilo for all pork supplied to the home market. In February, 1918, it was further increased to 52.5 öre, to 85 öre on February 14, and to 90 öre by the Grain Act of March 20, 1918. By the rationing of pork introduced by the Act of December 10, 1917, each person was allowed 280 grams per week (120 grams of chine of pork and 160 grams of ordinary pork). This ration may be estimated at half of the consumption of pork at that time, which, however, was very large because of maximum prices, while other meats were partly free. The decrease in production became, however, so marked that this ration had to be reduced (in spite of the fact that salt pork was included in the rationing) and the nominal value of pork tickets was cut down to 120 grams from June 1, 1918, while the chine of pork tickets were canceled. In order to afford the population some compensation for this reduction of rations an arrangement was made, according to which the tickets which had hitherto been valid for chine of pork were converted into discount tickets for 200 grams of meat.

During the autumn the nominal value of tickets for 120 grams was maintained, but at times only from 3 to 4 per cent of the tickets delivered could be made good, and in order to make up for the scarcity of pork the Government had even, in November, 1918, to distribute a quantity of sugar in exchange for pork tickets. In the spring of 1919 the supply of pork, however, improved somewhat. Exports of pork and hams, which in 1913 had amounted to 123,000,000 kilograms, and which in 1917 had been reduced to 82,000,000, was further reduced in 1918 to 3,000,000, and in 1919 even to less than 1,000,000.

The endeavors of the Allies to reduce to a minimum the export of fats southward was also reflected in the stoppage of the supplies of raw materials for margarine production. Normally Denmark only uses about one-sixth of her production of butter, while the remainder is exported, and the great consumption of fats is, consequently, largely met by margarine. By preventing the production of this commodity the Allies compelled us to eat the butter ourselves, and the result was a heavy decrease in butter exports. From 91,000,000 kilograms in 1913, exports were reduced to 61,000,000 in 1917 and to 15,000,000 in 1918. In 1919 the total again increased to 37,000,-

000. The reduction in butter exports enforced by the stoppage of raw materials for the production of margarine also recoiled upon Great Britain; but, especially after the United States had joined the Allies, she did not seem to attach much importance to this fact.

As said, early in 1917 Great Britain stopped the supplies of raw materials of animal origin for the production of margarine. Then the vegetable raw materials became increasingly difficult to obtain; and in the course of the autumn of 1917 the margarine industry was brought to a standstill. As at the same time the price of butter was greatly increasing, and consumers thus were under the necessity of buying this expensive butter, an arrangement was made according to which the Treasury, in order to keep its price from rising in this country, granted subsidies to the producers; and from January 1, 1918, the above-mentioned act of December 10, 1917, introduced a rationing of butter. Each person received 250 grams a week; and bakers, restaurant keepers, and others received a ration calculated on the basis of their normal consumption. We succeeded in providing the home market with the fixed ration quantity of butter in a satisfactory manner; but there could be no question of exporting any, apart from some assistance rendered to Sweden, which was effected by means of a reserve stock of 35,000 casks that the Government had procured. The number of milch cows which before the War had been 1,310,000 head was reduced to 1,024,000 by July, 1918. The yield of milk was, however, reduced still further; in 1914 it had averaged about 2,644 kilograms annually per cow; in 1917 it had been reduced to 2,412; in 1918 to 1,834; and in 1919 even to 1,658. In reality the cattle had been starved through the winter of 1918-1919, and only gradually did we succeed in again increasing the yield.

The decrease in the production of milk, which resulted in a decreasing production of butter, also had a direct effect on the supply of milk for the people. Thereby a new and serious problem came up, especially for the large towns; and by an act of December 21, 1917, covering the milk supply, the suppliers of milk were compelled daily to place two-fifths of a liter of whole milk at the disposal of every individual in households where no milk was produced.

So far as cheese was concerned the ordinance issued by the Minister of Justice on March 10, 1917, had made the regulations regarding the percentage of the fatty matter in the cheese exported more

stringent, so that only the richest and most expensive qualities were exported; and an export duty, corresponding to the difference between the fixed price of butter and the export price, was collected, in order that there should be no temptation to force the export of milk or cheese, and thereby derange the butter situation.

The commencement of the blockade had this immediate effect on the supply of sugar; that the discount system in force was converted on February 9 into a real rationing system—the first rationing to be done in this country. The sugar tickets valid for the purchase of the cheaper household sugar, which were already in the hands of the consumers, were converted into ration tickets, and the trades using sugar for manufacturing purposes received tickets which were valid for the purchase of a quantity that, in view of their previous consumption, was rather small. As already mentioned, an unchanged sugar ration of 2 kilograms to each person a month was maintained through the years of war; and, at times, to this there was even added "preserving-sugar" during the summer months. This arrangement entailed no extra expense as the price of sugar distributed to the trades was so high that household sugar could be sold at a price which was below the cost of production.

Hides, Leather, and Footwear.

The reduction in the price of hides which took place about New Years, 1917, because they were being increasingly retained in this country, became more marked after the commencement of the blockade on account of the increased number of killings caused by the scarcity of fodder; but toward the end of 1917 the price of hides was again rising, for all foreign supplies of leather were also stopped, so that only the domestic production was at the disposal of the country.

By an ordinance of July 20, 1918, the Home Secretary fixed retail maximum prices for all footwear, with the exception of the luxury footwear specified in the ordinance and footwear for military use. The manufacturer or the wholesade dealer was to stamp the wholesale selling price on the soles of every pair, this price to be regarded as the retail price upon the addition of a certain percentage. Imported footwear was subject to the same regulations in the calculation of profits as footwear manufactured in this country. Control of the selling prices of the factories was obtained by an ordinance

issued by the Home Office on September 18, 1918, after very serious disputes between "The Extraordinary Royal Committee" and the industry, which feared that the arrangement aimed at was the commencement of a general regulation of the profits of industries, with the incidental control of the individual factory. For the ordinance provided that the net profits of the factories in each financial year must not exceed 10 per cent of the aggregate amount of sales for the financial year in question. The fact that this control of the prices of boot and shoe factories, which was rather complicated in practice, was carried through in spite of the determined opposition of the industry was mainly due to the demands set up by the farmers, that in return for their having to deliver their goods at fixed prices they, as producers of raw materials, were to be given security that no unreasonable costs should be added to goods manufactured from such raw materials on the way to the consumers.

The manufacture of footwear proper having thus been placed under control an arrangement as to hides was made. A "Hide Office" was founded, to which the tanners were to send monthly requisitions for hides; the office would then refer them to the wholesale dealer from whom they were to purchase. The Hide Office also had control of exports, and collected the difference between the maximum price and the export price.

The arrangements regarding wool were very similar to those to meet the leather situation. It was also in this instance a question of a raw material which the farmers were to furnish to an industry; and naturally the farmers desired to get the highest possible price for their raw material, while, on the other hand, they desired to obtain the finished article at a reasonable price. The wool arrangement was to the effect that maximum prices were fixed on wool and on the yarn spun from the wool delivered.

The Fish Arrangement.

The stoppage of petroleum supplies for the fishing fleet, mentioned in the preceding chapter, was, above all, maintained unchanged after the commencement of the blockade, and thus there arose a new situation for the fisheries. The former arrangement, by which an attempt was made to increase consumption in this country and thereby diminish exports southward, and so lessen Great Britain's opposition to permitting the necessary imports of petroleum and

other fuels, had no real basis now when such supplies had been practically brought to a standstill; and from March 15, 1917, the fish agreement was revoked, in so much as the government subsidy and the export duty lapsed after that date.

An effort, however, had naturally to be made to effect a resumption of supplies of oil from the west as Germany could spare little fuel oil and no petroleum; but it was not until the coming into force of the agreement with the United States that a quantity of petroleum and other fuel and lubricating oils was again secured for this country.

While the situation as regarded the commodities hitherto dealt with in this chapter had, as a whole, been governed by the fact that they were produced in this country, and that in some cases it was necessary to maintain the export of such commodities as long as was possible, there were, of course, several commodities which disappeared entirely from the market because they could be only procured by import, and imports were stopped. In so far as this applies to the commodities termed "colonial produce," coffee, tea, rice, pepper, etc., or articles like thread and cotton, the same mode of procedure was used in all cases. The Government attempted to distribute the quantities on hand, or those which were received from time to time, by means of maximum prices and by a more or less detailed rationing of provisions.

"Colonial Produce."

The great importance of coffee as a stimulant, and for large parts of the population also as a quasi food in connection with bread or cakes, caused the distribution of coffee and its subsequent disappearance from the market to make a greater impression than had been made by the disappearance even of foods like pork.

A maximum price for coffee had already been fixed in July, 1916, by a voluntary agreement between the Committee of the Merchants' Guild and the importers of coffee, and in April, 1917, official maximum prices for sales from the importers to wholesalers, and from the latter to retailers were fixed, while, at the same time, a "Coffee Committee" was appointed which was to watch the fluctuations on the coffee market. As, however, coffee supplies became increasingly difficult to maintain, a real rationing was introduced in December, 1917, to take effect after January 1, 1918. In the course of the

spring of 1918 the ration had to be reduced several times. In April, 1918, tea was included in the rationing, in order thereby to make up for the dwindling rations of coffee, and also because the quantity of tea allowed us by the Allies amounted only to half the normal consumption. But in May it became absolutely impossible to procure coffee; and in the course of June the stock of tea had also been consumed.

The small quantities of coffee which were recived during 1918 were taken over by the "Coffee Committee"; and by a special Christmas rationing this supply was distributed, 50 grams going to each person. At this time so much tea was received that rationing could be resumed on January 1, 1919; and shortly afterward rationing was abolished as the market had received adequate supplies. So far as coffee was concerned rationing could not be resumed until January 27, 1919, and a month later it was abolished. The maximum price for tea was revoked on March 1, and that of coffee on November 28, 1919.

We shall further mention salt, of which commodity the necessary supplies had been assured to the country by the trade agreements with Germany; these supplies sufficed the better because the largest consumers of salt, viz., the dairies and the packing houses, on account of the greatly decreasing production, did not require their normal quantities. A "Salt Committee" had, however, been appointed to receive and distribute the quantities imported.

Coal and Coke.

While the supply of fuel in the days before the North Sea blockade had mainly been of concern because of Denmark's industries, such supplies were so severely reduced after February 1, 1917, that the general consumption was highly affected, and, consequently, arrangements for the rationing and distribution of the stocks of these commodities had also to be made.

In 1917 imports of coal and coke, etc., from Great Britain were reduced to one-third of the figures for 1916, or to one-fourth of our imports before the War. Part of this reduction was covered by our supplies from Germany, but the total annual imports from 1917 to 1919 amounted only to a little more than 60 per cent of those in 1913. Immediately after the commencement of the blockade Great Britain had appointed a "Coal Controller" who, acting on behalf

of the Government, took charge of the operation of all British mines, continuously supervised exports, and fixed prices.

When the blockade came into force purchases of coal and coke in excess of fourteen days' consumption were prohibited in this country, and stock was taken of the quantities to be found here. The result of this stock-taking proved, however, that the stocks on hand were sufficient for not less than two and a half months' consumption. Consequently, the stoppage of the supplies during the first months of the blockade did not cause insurmountable difficulties, the more so as the greater part of the fuel was in the hands of a "Continental Coal Committee," whence it was directed to those consumers whose requirements had, first of all, to be covered, principally the gas companies. In order to bring about an efficient distribution of the fuel on hand, or that imported, the Home Office appointed two committees in March, one for supplies from the south, and one for supplies from Great Britain, both committees working under a joint "Government Coal Distribution Committee." Furthermore, two ordinances of July 31, 1917, fixed maximum profits on transactions in coal and coke from the south and from the west, respectively, and the sale of continental fuel and British fuel by the same firm was prohibited. The councils of larger local districts had commenced to organize "fuel bureaus" in order to arrange for a rationing of household fuel during the coming winter, and a distribution of fuel to the poor at reduced prices.

If conditions thus seemed to be fairly tolerable, this was, *inter alia*, due to the agreement made with England to the effect that we should have the right and accept the obligation to receive 100,000 tons of coal a month (p. 467). It was due too to the ample supplies from the south. The question of prices had—from a consumer's point of view—been satisfactorily arranged. The coal freights which in January, 1917, had been kr. 70-75 per ton, had by June increased to kr. 210-220. Through agreements with the Shipping Committee and with the War Risk Insurance Institution for ships, which reduced its premium for a round trip from 24 per cent to 12 per cent, and by means of a rather large subsidy from the Treasury, a reduction of freight rates was obtained, whereupon the Shipping Committee fixed a maximum freight of kr. 110 per ton. Owing to this the price of British coal in this country could be reduced by kr. 80 per ton. Gradually insurance premiums and, consequently, also

freight rates were further reduced; and by the end of July, 1919, the latter were kr. 30, which rate was maintained unchanged until the abolition of the Shipping Committee in October, 1920.

In this connection it should also be said that the British Coal Controller, after January, 1918, demanded that sterling should be converted at the par rate, which demand was maintained until the rate of exchange of sterling in this country went to par; besides which an additional duty of kr. 10 per ton was imposed on exports to Denmark (but not on exports to any other country), and this duty, which was later raised to kr. 15, was not repealed until January 1, 1919.

Firewood and Peat.

In order to make up for the decrease in imports of coal and coke, which made itself felt when the blockade had come into force, continuous efforts were made to further the inland production of fuel, and to distribute this fuel equally to the population at the lowest possible price. At the end of February, 1917, a "Fuel Committee" was appointed to organize and take charge of the total inland production of firewood and peat; and an act of April 20, 1917, made it incumbent on forest owners to cut timber to such an extent that the quantity cut during the lumbering year 1916-1917 amounted to twice the cut of the years immediately preceding the outbreak of the War. In 1916-1917 the production of firewood was estimated at 1,700,000 cubic meters, as against a normal production of 700,000, and the peat production of 1917 is estimated at 2,500,000,000 peats, as against 800,000,000 before the War. For the following year, calculated up to April 1, 1918, the owners of forests and plantations were ordered to make about twice the normal cut, and this was also done.

For the lumbering year 1918-1919 the order was reduced to 10 per cent above the normal, or to about 800,000 cubic meters, the provisions regarding distribution, etc., being otherwise maintained from the preceding years. This also applied to the provisions regarding the selling of peat. The production of peat was estimated at 4,500,000,000 in 1918, and in 1919 at about 2,700,000,000.

Fuel Oil.

The simultaneous stoppage of the supplies of petroleum caused a material increase in difficulties. While in 1913 the imports of this

commodity had amounted to upward of 80,000 tons, the quantity imported in 1917 was only 35,400 tons, and in 1918 only 11,000 tons, of which 3,500 arrived in March and the remainder in December as a result of the trade agreement with the United States. In February, 1917, a "Fuel-oil Committee" was, therefore, appointed to undertake the rationing, the sale and the delivery of petroleum and oils.

The distribution of petroleum having been suspended for some months, so much American petroleum was received by the country in December, 1918, that the rationing for private consumption for December could be increased to three liters, and for January, 1919, to eight liters. At the same time the distribution for motors and other technical purposes was resumed, and from February 4, 1919, the rationing for all household purposes and for technical purposes was suspended. The rationing for motor use was, however, maintained until March, 1919.

The conditions which affected petroleum also applied to gasoline. When the supplies from America were suspended and only small lots could be obtained elsewhere, so that the total import during 1917 amounted to only one-third of the import of 1916, and in 1918 became almost negligible, various arrangements were made to make the stock on hand go as far as possible. Thus it was provided that gasoline and benzol should be mixed with alcohol, and the rules governing the use of motor vehicles were made stricter. In the early autumn of 1918 their use stopped completely; but at the beginning of 1919 the supplies of gasoline and of petroleum from the United States were resumed to such an extent that the above rules could gradually be relaxed.

3. The Great Industries.

Agriculture (including fertilizers and seed).

If we now cease to consider commodities mainly from the point of view of the consumer, and consider the conditions of production, we must mention two important things produced by the farmer which were made subject to a regulation of prices and public distribution.

In the first place we must bring up the question of fertilizers, of weighty importance for maintaining the standard of the soil and, consequently, of the crops as well. The supply of phosphoric fer-

tilizers, which chiefly come from Algiers and Tunis, had already been reduced, on account of tonnage difficulties in 1915 and in 1916. In 1917 it amounted only to 20,000,000 kilograms, and in 1918 to 400,000, as against 174,500,000 in 1913. On the other hand, potash fertilizers and nitrate fertilizers were received in the same quantities as before the War. But in 1918 such imports also ceased, and only supplies of potash fertilizer were received, mainly from Germany, with a quantity of Norwegian nitrate which, as mentioned above, was to be exchanged for grain.

This very great reduction of imports, taken with the diminution in the production of stable manure on account of the reduction of the stock of cattle, caused the crops of these years to diminish heavily. Not until March, 1919, did the supplies again become so abundant that the rationing of Chili saltpeter could be abandoned.

Another important commodity produced by the farmer, and subjected to regulating measures on the part of the Government was seeds, an embargo being imposed and maximum prices fixed on this commodity. An export duty was also imposed and collected, the revenue of which was applied to the regulation of the price on the home market.

Late in the spring of 1919 the stocks of seed again were so abundant that in March the maximum prices fixed for domestic sales could be abolished, and in July the embargo was discontinued.

While, as mentioned, the supply of seed during the first years of the War had been fairly normal, it decreased in 1917 and 1918 to about half the quantity imported in the years before the War, which was due, *inter alia*, to the fact that the Allies, in this indirect manner, wanted to reduce the supply of fodder for Danish cattle. On the other hand, these conditions caused the demand for seed to increase both in this country and abroad, and in Denmark the areas devoted to the cultivation of seed were doubled, indeed, for some kinds of seed, so much extended that their production in this country was sufficient to meet the world's requirements. Both the quantity exported and prices so increased that the value of the total export of 1918 amounted to nearly kr. 40,000,000, or almost ten times the amount in 1913. In 1919 the increase continued so far as quantity was concerned; but the value of the seed exported decreased to kr. 23,000,000.

Thus, exports of seed became a new and important source of

revenue, while, at the same time, the requirements of the Danish farmer were covered.

Other Industries.

At the time of the declaration of the blockade many industrial concerns were holding large stocks; and during the months of 1917 that elapsed before Great Britain canceled the trade agreement, no small quantities of raw materials and auxiliary supplies for industry were received from the west, despite the blockade. As a whole, employment conditions of 1917 were, therefore, still fairly good. For the year taken as a whole, Denmark's industries had an unemployment percentage of only 5.8, as against 4.1 in 1913. (Cf. the following figures:)

Unemployment Percentage, 1913-1920.

	1913	*1914*	*1915*	*1916*	*1917*	*1918*	*1919*	*1920*
The building trades	12.7	15.5	15.2	8.9	13.1	16.9	14.1	13.4
Unskilled labor	9.8	14.2	10.9	8.0	13.9	18.4	12.6	6.3
Manufacturing, etc.	4.1	5.2	3.5	2.3	5.8	18.1	8.6	4.3
All trades	7.5	9.9	7.7	4.9	9.7	18.1	10.9	6.1

It was not until 1918 that the full effects of the blockade were felt, and unemployment, in spite of the interchange of goods with the Central Powers and with Norway and Sweden, reached 20 per cent for the year taken as a whole; and in the manufacturing trades it was more than four times normal.

In 1917 it was at first the small stocks of coal that aroused anxiety, and that, in many places, acted as an impediment. The fuel question, then, exercised a great influence, particularly on the two great coal consuming industries, the manufacturing of paper and cement.

In other branches of industry it was, however, the actual raw materials which were lacking. The supplies for the margarine factories were stopped in the middle of 1917; and as they soon consumed the raw materials on hand, operations were suspended. Also the superphosphate factories had to shut down on account of a lack of raw phosphate. Unemployment in the textile industries which, in April, 1917, had arisen to almost 10 per cent again, decreased (especially on account of the joint purchases of raw cotton made by the Association of Textile Manufacturers) to 2.7 per cent in September.

But in December it again rose to 27 per cent, and during the whole of 1918 it was upward of 40 per cent. In the engineering industries there was also a considerable scarcity of raw materials, which could be remedied only in part by an interchange of goods with the Central Powers and Sweden.

It was not until after the armistice and the gradual relaxing of the blockade that conditions improved steadily; and in May, 1919, unemployment had been brought down to normal. It decreased to about one-half of normal during the prosperous times in the following eighteen months.

Industrial exports for 1917 were estimated at kr. 93,000,000 and in 1918 at kr. 135,000,000, as against kr. 60,000,000 in 1913. In 1917 the index number for industrial shares averaged 147, and in 1918, 195. But the uncertainty with regard to the future caused the figure to decrease from 163 in 1916 to 147 in 1917. In accordance therewith the supply of capital for the establishment of new companies and the extension of those existing, was reduced from kr. 70,000,000 in 1916 to kr. 22,000,000 in 1917; but in 1918 it again rose to kr. 100,000,000.

4. Prices; Grants to Meet the High Cost of Living; and Housing Legislation.

Prices and Their Regulation.

In the course of 1917 and 1918 prices rose still higher. In the middle of 1917 the retail price index number had reached 155, and in July, 1918, 182, while the wholesale price index numbers were 247 and 297, respectively. This rise had, in other words, taken place in spite of the maximum-price system and the subsidies from the Government, and also despite the measures taken to regulate prices in general, especially when the Danish market, so far as several commodities were concerned, had been cut off by the commencement of the blockade.

First, as regards arrangements for the general regulation of prices, it must be said that in order to prevent goods from being withdrawn from the consumers a prohibition had been issued as early as June 19, 1916, against withdrawing from the home market goods on which an embargo was imposed, or to which a restrictive clause as regards their further sale had been attached. A corre-

sponding prohibition with regard to grain and fodders had been in force since July 15, 1915.

These efforts to increase the marketing of goods, and thereby affect their prices, were supported by the fact that trade organizations and associations were directly prohibited from increasing the prices of foodstuffs without previously reporting such increases to the Extraordinary Royal Commission. But when the blockade commenced, efforts to counteract the increase of prices assumed another and more decisive form. An ordinance issued by the Home Office on February 1, 1917, on the unseemly exploiting of prevailing conditions, provided that increases of goods prices hitherto in force—if brought about by sales and resales—should be prohibited. Thus the ordinance established that the estimated profit before February 1, 1917—later interpreted to mean the percentage profit—must not be increased in the future. And in order to prevent consumers from being deprived of the advantage of this limitation of profits, an ordinance issued by the Home Office on May 19, 1917 (the "Chain-Transaction Ordinance"), provided that goods must not be made more expensive by trade profits, accruing on sales from manufacturer to manufacturer, from importer to importer, from wholesale dealer to wholesale dealer, from retailer to retailer, or by other similar transactions between like links in the regular chain of commodity circulation. Nor was any increase in the price to be caused by transactions whereby goods were transferred in the opposite direction in the said chain of circulation. In concurrence with these two ordinances, which caused a great stir among traders, a number of other provisions were issued aiming to compel people to comply with the maximum-price laws and prevent any exploiting of the buyer who, during the years in question, was more than ever the weaker party.

High Cost of Living Legislation.

Second, and regarding another of the above-mentioned devices for keeping down prices, namely, grants to the poor to lessen the high cost of living, we may say, continuing the observations in the foregoing chapter, that the "High Cost of Living Act" of 1916, which expired on June 30, 1918, was prolonged by an act of July 13, 1918, which was to remain in force up to March 31, 1919. In Section One of the new Act provisions were made for the price reductions un-

dertaken by the Government in the matter of the ration of rye bread (10 öre per 4 kilograms), of butter (20 öre), of pork or a corresponding quantity of other meat (40 öre), and 12 öre per kilogram for every 9 kilograms of groats (or possibly rye bread), all such reductions to hold good from September 1, 1918, to March 31, 1919, so that the prices fixed by the special "Foodstuffs Acts" for these commodities were further reduced by the amounts given above. By Section Three of the Act the local councils were further empowered to give all people in difficult circumstances such food, fuel, light, and clothing as was most urgently needed, without payment, or at reduced prices; or to make direct grants in money, to the extent of kr. 9 per citizen of the local district concerned, from July 1, 1918, to March 31, 1919—the Treasury to make good two-thirds of this amount. The provisions of an act pertaining to the imposition of additional rates to cover the expenses of the local districts caused by the act, corresponded in all essentials to the provisions contained in the former high cost of living acts.

Out of these additional rates the local district councils were also empowered to cover the expenses incidental to an increase in the old-age pensions and grants in aid to the members of recognized sick-benefit clubs, and also their share in the cost of supporting the families of persons who had been called up for military service.

Unemployment.

But the High Cost of Living Act also rendered assistance to a large and important group of necessitous persons, namely, the unemployed. The Act of October 2, 1914 (later extended for the fiscal years 1914-1915 and 1915-1916), had already facilitated the aid rendered by the local districts to persons who for unwonted reasons were unemployed, by providing that the Treasury should make good one-half of the grants in aid which had been paid to such unemployed persons through the Aid Funds. By the high cost of living legislation of 1915 these grants in aid were included in the High Cost of Living Act, as this Act makes mention of "additions to the current grants in aid of recognized unemployment funds"; and thus the incidental expenses were from then on covered in accordance with the special provisions of the High Cost of Living Act.

As, however, in the course of 1917 the unemployment question became more pressing, these grants in aid were transferred to the

unemployment funds while, at the same time, a number of regulations were issued, aiming at facilitating the access to aid from the unemployment funds; and, at the same time, an extraordinary subsidy of kr. 1,000,000 was granted by the Treasury.

But unemployment was increasing to a very great extent, as, at the beginning of October, 1917, its ranks numbered about 10,000. At the New Year the figure reached 40,000. And in January, 1918, the number was further increased. This, of course, gave rise to no slight unrest, to demonstrations which, however, were of peaceful nature, and also applications to the Government, to Parliament, etc. This brought about further concessions and large subsidies to the unemployment funds.

It must finally be said that when the cutting off of petroleum supplies and other difficulties for the fisheries brought about great unemployment among the fishermen, in their case a dole was granted the unemployed and the needy of kr. 110 per month for supporters of families, and kr. 60 for single men.

Housing Conditions.

As mentioned in the preceding chapter, the difficulty of procuring the necessary housing accommodations, and the increasing rents induced the Government to intervene in various ways. The arrangements made provided, in part, for a regulation of rents in the case of existing dwelling houses and business premises, and, in part, for Government aid toward providing new apartments.

An effort was made to attain the first object—rent regulation—by the appointment of rent committees, which were to sanction increases in rents, notices to quit, etc. The scope and powers of these committees were gradually extended by acts frequently changed, and in 1918 their scope was increased so greatly that the legislation included provisions covering the subletting of single rooms, and the letting of furnished rooms.

In order to prevent a decrease in the number of old flats a prohibition was simultaneously issued against the demolition of buildings containing flats; and tenants, regardless of the provisions of their leases, were permitted to sublet in order to utilize the existing accommodations to the utmost.

By the Housing Act of July 30, 1918, house owners were given a compensation for the rise in prices corresponding to 10 per cent of

normal rents on August 1, 1914, in the part of the town in question, so that, practically speaking, the owner was entitled to this 10 per cent addition, no matter whether repairs or improvements had been effected or not. Later on this increase in rent was made greater, so that the rent committee was to sanction an increase of not less than 20 per cent of the normal rent of 1914, if the owner was required to keep the flat concerned in repair and such repairs had been carried out satisfactorily; and 15 per cent if the tenant had to keep the flat in repair. After 1921 (Act of April 1, 1921) the winding up of the housing legislation began, *inter alia*, with the provision that the two above-mentioned percentages of 20 and 15 per cent, respectively, which were to be sanctioned by the committee, were increased to 30 and 20, respectively; and that an owner was entitled to obtain as much as 30 per cent more than the actual rent—though not the normal rent—of 1914 without the sanction of the committee if he was required to keep the flat concerned in repair, and such repairs had been carried out. That the winding up of the housing legislation had thus begun also appeared from the fact that the owner's control of the use of his flats was extended, in so far as notices to quit served on disorderly tenants had to be approved by the committee without reservations, and in the fact that houses, the erection of which had been commenced after April 1, 1921, were not to be included in the housing legislation. Otherwise the Act not only afforded the tenants and the subtenants a protection against increases in rent and notices to quit, but it also contained provisions aiming at a utilization of the number of existing flats by compulsory letting of those vacant, etc.

The above-mentioned provisions were further relaxed by a new act of May 1, 1922, which meant a signal step toward normal conditions. It must thus be said that agreements between owners and tenants regarding increases in rent under existing leases were now valid without the sanction of the rent committee. The above-mentioned percentages of addition to the rents of 1914, which the committee was bound to sanction, were increased to 35 and 25 per cent, respectively, just as owners were entitled to claim full compensation for such increases in taxes on real property as were caused by the increases which had taken place since 1914, and which might later occur in these taxes. Thereafter the winding up was continued until the Act of May 1, 1923, abolished all rent committees

as from June 1, 1924. This act, however, permitted the municipal councils to make provisions as regards increases in rent and notices to quit for one year. In order that the tenant should not be quite without protection the courts might set aside leases in case the owners, by such leases, had obtained or secured advantages which were obviously out of proportion to the return.

The Act of June 4, 1924, extended the powers of the local councils to make certain transitional provisions for another year, and by an act of April 1, 1925, the provisions regarding rent committees were further extended in the case of Copenhagen. The Act also made it possible to prevent removals from other local districts while the prohibition against the demolition or rebuilding of dwelling houses, and the power to compel the letting of vacant flats, etc., were maintained. These provisions were to be valid up to April 30, 1931. In local districts outside Copenhagen the local councils could—up to May 1, 1927—make provisions against demolition, etc., in the same manner as in the capital. Finally, protection against exorbitant increases in rents ("rent usury") was maintained; and the local councils which had hitherto issued regulations prohibiting increases in rents and notices to quit could continue to do so up to May 1, 1927.

Assistance in the Building of Dwelling Houses.

As already stated, the above-mentioned arrangements were accompanied by other provisions designed to facilitate the building of new houses by means of subsidies from the Treasury.

Thus the Home Office might permit certain reductions of the municipal property rates for as much as ten years for dwelling houses erected after June 1, 1916. The life of this act was prolonged several times, the last time by an act of March 31, 1926.

Further, an act of March 31, 1917, empowered the Minister of Finance to grant to building associations loans from the Treasury loan funds of kr. 1,000,000 for the fiscal years 1917-1918 and 1918-1919. (The amount was later increased to kr. 3,500,000 for the two years. For the year from June, 1919, to June, 1920, an act of June 3, 1919, fixed the amount at kr. 2,000,000, which was later increased to kr. 4,000,000.) By an act of March 31, 1917, quite a new principle was introduced, kr. 5,000,000 being placed at the disposal of the Minister of Finance to be used as loans to the municipalities which were building, or assisting in the building of dwelling

houses for the poor, or which had granted loans for such building operations; and later kr. 25,000,000 was placed at the disposal of the local councils.

This legislation was further extended in so far as the Government, pursuant to an act of February 5, 1918, for the purpose of reducing unemployment, granted subsidies to local councils which were desirous of taking up loans in order to undertake relief works (both the building of dwelling houses and other works). The subsidy was paid as an aid to the payment of interest on such loans, in such a manner that the local councils received a semi-annual remuneration of as much as ¾ per cent of the original amount of the loan for eight years, and 1¼ per cent if the loan was used for the erection of added housing for the needy part of the population. Subsidies could also be granted to building societies and, later on, also to private individuals who were erecting dwelling houses for the poor, to this extent that the subsidy covered the payment of interest and installments of not more than 10 per cent of the official valuation of the building. These subsidies were later increased to 15 and 20 per cent. The necessary capital was procured; by means of the "Provisional Municipal Loan Institution of 1914," established by an act of March 12, 1915, to the effect that the financial institutions of the country should place an amount corresponding to ⅔ per cent of their balance at the disposal of the Loan Institution, whereby a total of about kr. 30,000,000 was procured, and the Loan Institution also disbursed the subsidy. By a new act of November 1, 1918, the subsidy for the payment of interest was increased from ¾ to 1¼ per cent, to 1 and 1½ per cent, respectively. By an act of December 22, 1920, the Government's powers to grant aid for the relief of unemployment were renewed, as according to this act subsidies could be granted toward the payment of interest on loans advanced by local councils for the purpose of executing extensive works for the relief of unemployment. The subsidy amounted to not more than 2 per cent of the original amount of the loan, and was paid semi-annually for ten years. Furthermore, the act empowered the Home Secretary to guarantee loans taken up by the local districts for the purposes dealt with in the act, up to an aggregate amount of kr. 70,000,000.

The amounts paid by the Treasury for these subsidies may be estimated at about kr. 100,000,000, and if we estimate the average subsidy at about 15 per cent of the value of the building, the Govern-

ment thus assisted in the execution of building operations to the amount of about kr. 600,000,000.

When these acts had expired no laws were in force authorizing financial support by the Government for building operations. The need of such legislation, however, was felt, and by an act of December 23, 1922, regarding the government dwelling-house fund, an arrangement was made according to which the controllers of this fund, through the Kongeriget Danmarks Hypotekbank (The Mortgage Credit Bank of the Kingdom of Denmark), issued bonds bearing interest at the rate of 5 per cent and corresponding to the nominal value of the mortgages received in consideration of the loans. The Government guaranteed the bonds; it was, however, provided that one-half of any possible loss should be paid by the local district in which the property concerned was situate. Through the government dwelling-house fund an amount of kr. 117,000,000 was loaned up to October, 1927.

If we consider the housing legislation as a whole there can be no doubt that both the regulation of house rents and the subsidies to building operations materially assisted in solving a great housing problem, and as the scarcity of building materials impeded building operations, no great damage was probably caused by the fact that the price level was maintained, and building operations were, therefore, hampered. But, on the other hand, this legislation doubtless caused normal building operations to be delayed when the War had ceased and building materials, etc., again could be procured.

As regards building materials, it can be said that maximum prices were fixed for the most important; but, of course, it was impossible to prevent a scarcity occurring, e.g., of cement, the production of which was stopped because of the lack of coal. Consequently, it was subjected to rationing which, however, could be essentially relaxed in May, 1918.

5. Monetary Conditions.

The Stock Exchange.

When, on February 1, 1917, the blockade came into force, the Stock Exchange was again closed for securities carrying interest until February 12, whereas it was permitted after February 19 to deal in shares after exchange hours. In the first half of March the

outward forms of exchange (quotation conditions, etc.) had resumed their normal course.

The decline in the value of securities which had occurred since August-September, 1916, had been made decidedly greater after the commencement of the blockade.

While the rate level of securities for the year 1917, as a whole, was not higher than that of 1916, the increasing abundance of money and the steadily decreasing possibilities of making investments through normal transactions caused the prices of 1918 to rise still higher and to culminate in September. But Austria's offer of peace in mid September, and Germany's subsequent offer of peace in October, with the revolution in November, brought about a heavy slump in prices. It soon appeared, however, that it was a long way from armistice to peace, that the blockade was to be raised only gradually, and that a great increase in transportation could easily use all the available tonnage, so that the carrying trade was still able to earn good profits. Indeed, this was the case because of the fact that according to the trade agreement with the United States of September, 1918, we had placed such a large proportion of our tonnage at the disposal of the Allies at fixed rates. Besides, the world's general price level, which had dropped for a short time immediately after the armistice, commenced to rise with unprecedented violence, which, of course, was beneficial to many concerns. These conditions had the effect that prices from December, 1918, as a whole, did not drop further, but on the contrary increased slightly until the middle of the year 1919.

In accord with the above-mentioned shiftings of the price level the public offerings of stocks and bonds show a reduction, in round numbers, from kr. 105,000,000 in 1916 to kr. 85,000,000 in 1917; but thereafter the figure rises to kr. 250,000,000 in 1918, and again recedes to kr. 190,000,000 in 1919.

The Balance of Trade.

If we examine the movements of the balance of trade for the two years 1917 and 1918 it will appear that the gross freights income exceeded the excess imports by about kr. 800,000,000. If to this we add the profits of commerce and insurance transactions abroad—some kr. 300,000,000—and the flight of capital from the belligerent nations—about kr. 50,000,000—the sum will amount to kr.

1,150,000,000, of which about kr. 50,000,000 probably went as interest payments due foreign countries, kr. 350,000,000 for the purchase of bunker coal for vessels employed in foreign trade, and a further kr. 335,000,000 reappeared as an aggregate increase of foreign debts to the Danish banks (some kr. 170,000,000 of this amount being for loans granted directly to foreign countries); and kr. 200,000,000-300,000,000 must probably have been devoted to the purchase of foreign moneys outside the banks. The balance should then amount to about kr. 200,000,000 which, together with kr. 70,000,000 appearing from a calculation similar to that made for the first years of the War, may have been applied to advance payments for goods ordered, etc.

Rates of Exchange.

On account of this abundance of foreign media of payment the rates of exchange of foreign moneys were still ruling comparatively low, and so far as sterling is concerned, it reached its lowest rate on November 2, 1917—kr. 13.00—with the dollar at kr. 2.80. Like the value of stocks, these rates again rose in anticipation of the effects of the impending peace between Russia and the Central Powers, and on January 1, 1918, they reached about 15.40 and 3.25, respectively. Apart from slight fluctuations this level was maintained until September, when the Austrian offer of peace indicated that the War was drawing to a close. Then, again, they rose, as it was expected that it would again be possible to purchase goods abroad; and in January, 1919, they rose above their former gold-par value.

The Extension of Credits.

The aggregate advances of the private banks, which at the end of 1916 had amounted to about kr. 1,600,000,000, had almost reached kr. 1,900,000,000 at the end of 1917; and in the course of 1918 they amounted to kr. 2,800,000,000. At the same time the note circulation of the National Bank had increased by kr. 165,000,000 on account of loans to the Government, and so far as about kr. 40,000,000 of this amount was concerned, on account of the purchase of foreign money.

The loans to foreign countries which, as previously mentioned, were principally due to the trade agreements, concluded with the

Central Powers, in 1917 amounted to kr. 136,000,000 and in 1918 to kr. 33,000,000, respectively, while the private banks took the balance.

The low rates of exchange on foreign money also had the effect that the Royal Ordinance which granted the National Bank dispensation from its obligation to redeem its notes in gold, was not renewed on its expiration on April 30, 1917 (although the act which made it possible to issue the Ordinance remained in force); and the notes of the Bank which, since March, 1916, virtually had been redeemable, now became so legally, until this provision came into force again by a Royal Ordinance dated July 30, 1919. The Bank's obligation to purchase gold at the price provided for in the Currency Act, however, and the free right of coinage remained suspended throughout.

Finally, it must be mentioned that the National Bank had again been authorized to issue one-krone notes; and an addendum to the Monetary Union agreement of February 22, 1912, opened a possibility for the replacement of copper by iron coins; also, by an act of May 31, 1918, the melting down of iron coins was prohibited.

CHAPTER V

THE YEARS AFTER THE WAR

1. Foreign Relations.

The Economic Situation at the Conclusion of the Armistice.

At the beginning of November, 1918, the military resistance of the Central Powers broke down, and on November 11 the armistice was signed. But the blockade against the Central Powers was maintained, and the same applied to Denmark's trade agreements with the Allies; thus, for instance, the embargoes were maintained because of the obligations imposed by the agreements; which, *inter alia*, made it difficult to convert into money the goods which had been purchased for reëxportation with the end of the War in view. At the same time the Allies put their large supplies of goods on the market; and in the United States there was some talk of using Copenhagen as "an emporium for the Baltic"; this caused heavy demands for credit from the banks, in order that this supposedly favorable opportunity of making a great commercial advance should not be lost. The lending activities of the banks were further accelerated by the fact that the world price level which had culminated in November, 1918, at 237 (*The Economist's* price-index number for July, 1914, being 100), and which, during the months following, had decreased by about 10 per cent up to March, 1919, now commenced to rise again at an increasing rate, until in March, 1920, it reached its climax with 325.

To the demands which, for the reasons enumerated above, had been made on the banks, were now added the multifarious expenses incidental to the recovery of the Sleswig provinces. Not only had the Government to procure the necessary funds through large loans and by drawing on the National Bank, but the Danish financial institutions also directly aided the Sleswig industries which were in a state of great distress after the stagnation of the years of war, and on account of the slump in the value of the German mark.

Consequently, the rise in prices on the world market was intensified in this country; and in January, 1919, the rates of exchange of foreign moneys rose above the old gold-par value, both on account of the extension of credits in Denmark and on account of the fact that the financial breakdown of Central Europe caused Germany's

demand—especially for our agricultural produce—to cease. At the same time Great Britain maintained control of the supplies of foodstuffs, and dictated both the quantity and the price of the foodstuffs bought from this country. As similar conditions prevailed with regard to coal, the price of which increased very considerably, we were compelled to purchase at high prices and to sell cheaply; and, also for this reason, the balance of trade with foreign countries was upset.

The Winding Up of the Commercial Agreements.

The American agreement of September 18, 1918, came into force on October 3; and Great Britain stated that, from the same date, she considered the Anglo-Danish agreement to have come into force again. It was mentioned in the preceding chapter that the mode of procedure used by the Allies in connection with the issue of licenses in accordance with the agreements was exceedingly complicated, and that during the first months of the coming into force of the agreements the issue of licenses took place to a limited extent only.

Conditions, however, gradually improved. Thus, at the end of December, we obtained a material alleviation. From then on export licenses were issued in a very few days after the application had been received by the War Trade Board. In order to bring about a quicker winding up of the whole trade agreement system, and especially to obtain increased supplies for the farmers, a delegation again visited Great Britain in the first days of January, 1919. The delegation obtained, first, supplies of fodder cake and fertilizers and, second, a dispensation from our obligation to deliver the 100,000 tons of grain to Norway in return for the quantity of nitrate allowed us by the American agreement and, finally, the promise of a supply of corn. The representative of our industries secured the abrogation of the additional clauses, and an increase in or a suspension of the rationing system, as regards a number of commodities. Also a promise that the visa of the declarations of guarantee for goods interchanged between the Scandinavian countries should lapse, which was of vital importance to the inter-Scandinavian interchange of goods. But soon afterward the whole rationing and blacklisting system was suspended; and on the return to a free interchange of goods the special Scandinavian interchange of goods which had been so useful to the three countries, lapsed of itself.

Furthermore, the Minister of Justice had, on December 21, 1918,

and on February 1, 1919, granted general dispensations from the embargoes on exports to the Scandinavian countries, always provided that such exports did not constitute a contravention of the agreements. But when the governments of the Allies released a number of commodities, so that the two organizations could, on March 24, issue a "List of Free Goods," pursuant to which not only were the imports to this country of the goods concerned exempted from rationing but the restrictive clauses hitherto in force were also rescinded, the Minister of Justice was able to discontinue the embargoes on such goods. A short time afterward the entire import rationing and blacklisting system was abolished; and after June 10 the individual declarations of guarantee lapsed. On the same date the Danish Government assumed the obligations of the two organizations with regard to declarations previously given. On July 9 an arrangement was made with the governments of the Allies, according to which the trade agreements entered into with these governments were to cease as from the date of the ratification of the peace with Germany. This ratification took place on January 10, 1920. But in practice the agreements were virtually suspended from July 9, 1919; on July 29 the embargoes on horses, cattle, meat, and tinned goods were discontinued; and on August 6 large quantities of goods were released for export. It was of special importance that the free port of Copenhagen was again made an extra-territorial domain, which meant that goods subsequently arriving at the free port were not included in the existing embargoes; and from March 23, 1921, the embargoes were discontinued as regards all goods which had arrived at the free port directly from abroad, regardless of the time of arrival.

The liquidation steadily proceeded, so that the list of embargoes in force, issued by the Ministry of Justice, which on January 2, 1919, had contained the greatest number in the whole period of the War, namely 199 serial numbers, comprised only 78 serial numbers on December 1, 1919, and 40 on October 20, 1920.

While thus the restrictions upon the interchange of goods with foreign countries, imposed by the agreements with the Allies, were removed in the course of nine months, the restrictions imposed by Germany lapsed immediately upon the conclusion of the armistice. The Committee of the Merchants' Guild and the Chamber of Manufacturers could, therefore, state on November 22, 1918, that all

restrictive clauses previously imposed by Germany had been abolished. But in December new difficulties set in, because of the fact that after the conclusion of the armistice the Allies, who were still maintaining the blockade of Germany, could enter the Baltic Sea and blockade the German coast. This prevented the export of coal to Denmark, which had taken place principally by means of German vessels. What was still worse, the demand on the part of the Allies that Germany must not reduce her supply of foreign moneys below a certain amount brought about the result that after April, 1919, our agricultural exports southward were drastically diminished. And—due to Germany's failing capacity to pay—they did not recover during the years that followed, a thing which was very detrimental to our financial position.

The Ending of the Shipping Agreements.

As the Danish-American agreement had bound us to place more than half our fleet at the disposal of the Allies, the Shipping Committee took charge of the remaining tonnage, and no chartering could take place except with the sanction of that committee. Furthermore, the Committee, in conformity with the Home Office, put maximum freight rates on a number of important commodities; and on November 24, 1918, a list of these rates was published under the authority of the committee. But soon the armistice also reacted in this field. In February, 1919, the United States waived its rights to charter Danish tonnage as provided in the trade agreement; and when the shipowners had their ships released, they brought great pressure to bear on the Government to induce it to abolish the right given to the Shipping Committee to charter ships, and likewise to abolish maximum rates. In consequence thereof an agreement was made between the Government and the Shipping Committee, according to which the Danish mercantile marine was to be placed at the free disposal of its owners, provided that tonnage was still made available by them for the conveyance of coal from Great Britain at a freight rate not exceeding kr. 35, and tonnage for the conveyance of fodders at a freight rate not exceeding kr. 100. By an act of December 22, 1920, the Shipping Committee was abolished.

The shipping trade experienced a boom during 1919, the demand for tonnage to this country alone being able fully to occupy all Danish vessels which returned on their release from Allied service.

But from March, 1920, freight rates commenced to drop, at first slowly, but later on at an increasing rate; and during 1921 this fact resulted in rather a large laying up of tonnage, until the expenses for wages, etc., had again been brought, to a certain extent, to correspond to the new freight level.

As mentioned above (p. 474), the freight index number for 1918 may be calculated at 1,049. For 1919 the number was 920; for 1920, 850; and for 1921, 336. But these figures, which are calculated according to gross freights, would have shown a still greater decline if they had not been affected by the incipient fall in the value of the krone. The value of the shares of the steamship companies also show a downward tendency, from an index number of 425 in 1918 to 347 in 1919, and to 312 in 1920.

When a comparison is made between the gross freight incomes of these years it must, however, be remembered that the shipping trade in many ways was placed in a position, during and after the War, which was different from that of pre-war times, as sailings took longer and went by longer routes than normally. Thus coal was carried from overseas countries, principally from the United States, but also from South Africa and China, while before the War it had been exceptional to import coal from other countries than Great Britain and Central Europe.

In this connection it must also be said that Royal Ordinances of September 22 and October 10, 1919, provided for the winding up of the war risk insurance institutions for vessels and cargoes. The aggregate losses of ships caused by mines, by torpedoings, and the like during the years 1914-1920 amounted to 148 steamships and 121 sailing vessels of 140,600 and 32,800 tons, respectively. The number of lives lost by the sinking of steam and motor ships was 395, and by the sinking of sailing vessels, fishing vessels, etc., 303. The total premiums received by the Marine Insurance Institution amounted to about kr. 118,000,000, and the compensations paid by this Institution to some kr. 72,000,000, the corresponding figures for the insurance of goods being kr. 17,000,000 and kr. 8,000,000. At the distribution of the profits of the Institution for the Insurance of Freights the Government—according to the rules for such distribution—received fully kr. 7,000,000, while out of the profits on the insurance of ships the Treasury received kr. 21,000,000, in accordance with an agreement between the Government and the

shipowners; and, in addition, the Institution subscribed kr. 25,000,000 to the National Loan of April 1, 1919. Finally, the Treasury received kr. 11,500,000 from the Government's Excess-War-Risk Insurance of ships.

2. The Government and the Home Market.

The Grain Act of 1919.

Uncertain supplies and rising prices had resulted in the passing of a new Grain Act for the harvest year of 1919-1920. Conditions had, however, now changed so much that it was considered sufficient to commandeer grain for human consumption. The Grain Act of September 19, 1919, therefore, imposed upon the owners only the obligation to turn over all rye and wheat, and enough spring grain to bring the total quantity delivered to 2 kilograms for each kr. 1,000 of land value in excess of the first kr. 10,000. Furthermore, the Act permitted unfettered trading in the matter of the grain which the owner was not bound to deliver, with the exception of Danish grain for the manufacture of spirits and beer; and it also granted reductions for seed grain. The Act further provided that farmers who, before October 7, 1919, made application to that effect to the local "grain committees" might have as much as 20 kilograms of rye and wheat exchanged for equal quantities of corn, barley, or wheat-bran, or of fodder cake in quantity calculated in accordance with the price of cake in proportion to the price of corn. The price of the grain which it was not desired to have exchanged, or that could not be exchanged, was fixed at kr. 30 per 100 kilograms, which was kr. 3 more for winter grain and kr. 6 more for spring grain than the prices paid pursuant to the Grain Act of 1918; the prices provided for by this act having been increased by the Grain Act of 1919 and an additional payment of one krone per 100 kilograms being granted.

Economically the whole exchange transaction was based on an arrangement made with the shipping trade, according to which the quantity of corn required for this exchange was to be transported to the country at a reduced freight rate. In this manner it was made possible for the Government to give fodder grain in exchange for breadstuffs. Then the farmers who normally used their grain for fodder could not complain of having to deliver rye and wheat at

kr. 30 per 100 kilograms, while the price in the open market was about kr. 44 at the time the Act was passed.

During the first six months of 1919 the freighting of fodders had gradually been resumed to such an extent that it was possible to give out rations of 6 kilograms of fodder cake per milch cow in March; in April it was, further, made permissible to purchase 15 kilograms; and in May, 15 kilograms. By an ordinance of June 4 the rationing of fodder cake was abolished. So far as corn was concerned the supplies received up to August 1 had amounted at most to 20,000 tons, which had been distributed among the importers. In addition, subsequent cargoes were collected for the purpose of meeting the impending exchange, which it became possible to carry through satisfactorily.

The Grain Act of 1920.

Finally, on September 10, 1920, the last of the grain acts of the war period was given Royal assent. This act applied to the harvest year 1920-1921. Despite the fact that two years had now passed since the War had come to an end, and that in the spring of 1920 the Parliamentary Left, supported by the Conservatives, had come into power, and it was the desire of these two parties to get away from government interference in trade, it had not yet been possible to free the sale of bread from such government interference. This was due especially to the fact that the grain acts and the high cost of living acts connected therewith, had secured not only the necessary quantities of bread to meet the requirements of the population, but also had fixed the price at such a low figure that in 1920 the price of rye delivered from the government stocks was kr. 15 per 100 kilograms, while, at the same time, the Government paid kr. 43 for the grain given up by the farmers pursuant to the Grain Act of 1920, and the price of rye in the world market in September, 1920, when the Grain Act was laid before Parliament, was not below kr. 60. To cover the requirements for breadstuffs by free imports at these prices it would then have been necessary for the Treasury either to meet new and very large expenses, or to see the price of rye bread carried to such a height that no Government would dare to assume the responsibility.

Consequently, the Act maintained the prohibition against using rye and wheat as a fodder and also the embargo on grain; and made

it compulsory on the farmers to deliver to the government warehouses all rye and wheat, except the quantities necessary for seed, at a price of kr. 43 per 100 kilograms. As, at the time of the passing of the Act, corn was quoted at kr. 37, it was thought that in comparison with this price kr. 43 must be the minimum compensation for those who had to surrender rye and wheat, and as a set-off had to purchase corn. To cover the expenses to which the Treasury would be put owing to the purchase of rye at kr. 43 and the sale at kr. 15 up to April 1, 1921, and thereafter at kr. 25, it was anticipated in the Act that, in the first place, the wheat belonging to the Government was to be sold at kr. 60 per 100 kilograms, and in the second place, that under all circumstances there must be wheat available for export, the rations being fixed at eight tickets of 240 grams of flour per month; and, finally, that there must be spring grain available for export; in case of dispensations from the embargo an export duty was to be paid. But to make the financial character of the arrangement more secure, the importing of breadstuffs was prohibited, a provision which attained great importance because of the fact that toward the end of the harvest year the price of wheat on the world market went below the price in the government warehouses, viz., kr. 60. As, however, the exports became quite insignificant, the expenses to the Treasury incidental to this Grain Act amounted to upward of kr. 60,000,000. After the passing of the Grain Act of 1919 it ought to have been possible to fix the price of rye bread at kr. 0.96 per 4 kilograms in the capital, and at corresponding prices in the other parts of the country. By means of the high cost of living legislation and an act of August 31, 1920, bearing on the price of rye bread, this price was maintained up to the end of September, 1920. But when the millers and bakers were allowed a somewhat larger profit the price of bread rose to a certain extent, in spite of the unchanged price of rye; and in July, 1921, the price of rye bread in Copenhagen had risen to kr. 1.28 and in October of the same year to kr. 1.41 per 4 kilograms.

The Rationing of Bread.

The size of the ration of rye bread, and the system of additional bread tickets valid for rye bread, continued in force during these years, just as in the years before. On the other hand, as the harvest yield of 1918 had been larger than that of 1917, the number of

wheat bread tickets was gradually increased until from April, 1919, on, twelve tickets per month were again issued. On July 30, 1919, the rationing of wheat bread and wheat flour was abolished; but, as the quantities of wheat received by the government warehouses were smaller than anticipated, rationing had to be reintroduced from May 14, 1920, with rations of only four tickets per month, and the bakers were granted permission to mix barley flour with the wheat flour. After the new harvest the ration of wheat bread could again be increased to eight tickets, and after December, 1920, to ten tickets. The rationing of wheat bread and wheat flour was abolished on January 20, 1921.

Beer and Spirits.

As regards the breweries and distilleries, soon conditions could also be relaxed. The provision of the Grain Act of 1919, according to which purchases of Danish corn for their use could only be made with the consent of the Home Office, was the principal rule applying to both industries. Pursuant thereto, both breweries and distilleries received permission to purchase a quantity of home-grown barley corresponding to one month's consumption in each brewery or distillery concerned.

The Grain Act of 1920 had provided for free trading in spring grain; but as the prohibition against the delivery of spirits from the distilleries was still in force, the government limit on production was continued as hitherto. By an ordinance dated January 15, 1921, the rules in force regarding the making of spirits and the maximum prices thereof were modified; but the limit on the quantity of spirits manufactured and imported still continued to be enforced. It is true, in return the existing distilleries were given a monopoly. But they were forbidden to enter upon the manufacture of spirits or yeast except with the permission of the Home Secretary.

The Rationing of Pork.

In the period that followed the end of the War, the rationing of breadstuffs had been maintained, both with a view to assuring the necessary quantities for the requirements of the population, and to controlling price increases. But the supply of fats quickly became so abundant that the rationing tickets for butter and pork had only the character of rebate tickets. Thus, at the beginning of 1919

large quantities of American pork had been imported, and sold concurrently with the Danish pork, a maximum profit being, however, fixed for this American pork. Thereby the demand for Danish pork was diminished, domestic and secret slaughtering decreased; and after a reduction of the supply to the packing houses, incidental to the decrease in swine breeding in 1918, the supply of Danish pork again increased. The agreement made pursuant to the Grain Act of 1918, which secured the pork producer a fixed price for the whole of his production was, however, modified in July, 1919, by the packers so as to expire on September 1. For they desired to return to free conditions as soon as possible, and it was feared that the arrangement in force would prevent the production of pork from reaching its old level and again asserting itself in foreign markets. From September 1 a new arrangement was, therefore, made, according to which the packers retained their abattoir monopoly, and were permitted to export when the domestic market had been provided with the required 200 grams per week per person, the price of the pork sold for domestic consumption being kept down by subsidies from the Government. This arrangement was, be it said, only of short duration. After December 1 the subsidy was abolished and was replaced by subsidies to the local districts for the issue of rebate tickets. The sales to Great Britain, to which the packers had been anxiously looking forward were, however, not resumed to the extent desired; and further negotiations in Great Britain regarding prices were not satisfactory. The exports for the whole year 1920 did not amount to more than 42,000,000 kilograms, as against 126,000,000 in 1913. In March, 1920, the entire pork agreement was formally abolished; and in the course of the summer of 1920 the last maximum prices, and the monopoly of exporting held by the packers was abolished, together with the embargoes.

The Rationing of Butter.

The ending of the butter agreement was, comparatively, easier than of that covering pork. The production of butter was relatively larger; and the production of margarine had been resumed during the first half of 1919, after having been suspended since the autumn of 1917. In February, 1919, the East Asiatic Company imported 10,000 tons of soya beans; and from March 3 a rationing of the 1,800 tons of margarine produced from the soya oil, mixed with

some cocoanut oil and foreign butter and tallow, was introduced, with the result that in March 600 grams of margarine were delivered instead of half the butter ration of 500 grams, at a price of kr. 2.30 per kilogram, as against a butter price of kr. 3. Persons preferring butter might legally obtain it by exchanging their margarine tickets for butter tickets and paying the difference between the consumer's price and the export price, namely, kr. 6 per kilogram. It was thought possible to relieve the Treasury by reducing the subsidy to home consumption. The tradesman, however, had still to purchase butter at the export price. From May 5 the rationing of butter and margarine was abolished, but up to August 31 each consumer received 400 grams of butter a month at the reduced price hitherto in force, kr. 3 per kilogram, on showing rebate tickets. From September 1, 1919, a maximum price of kr. 5.90 was fixed for retail sales; and, finally, the embargo on butter was ended on December 6, 1920. At the same time the Butter Export Committee was abolished, and trading in butter thus became completely free.

Pork and Butter Exports.

From 15,000,000 kilograms in 1918 exports of butter had increased to 37,000,000 in 1919 and to 75,000,000 in 1920; and, so far, that had been satisfactory. But prices were low, and this held good both of pork and butter. As mentioned above, the fact was that the British Government had monopolized the purchase and distribution of pork and butter; and as the southern countries had no money with which to pay, the British market was, now as formerly, vital to our exports. Denmark's dairying industry sought to induce Great Britain to remove the restrictions and to obtain the best possible prices while these restrictions were in force. For this purpose negotiations were carried on in London by the representatives of Danish dairying, at times working alone, and at times with representatives of manufacturing and general business, in order to induce Great Britain also to reduce the price of coal, and make this price reasonably proportionate to the price paid for butter. On the whole, little was achieved, and the British prohibition of import and the purchase monopoly of butter and pork were not abolished till April 1, 1921.

Milk and Cheese.

The Act of November 1, 1918, had, for another year, provided for a supply of milk for the towns, and granted a subsidy toward

the reduction of the price of milk to children below the age of six. Nevertheless in the course of the winter of 1918-1919 it was particularly difficult to assure a supply for the capital; and to remedy this it was made permissible to skim milk containing more than 3 per cent of fat, or to mix whole milk with skimmed milk until the mixture had a fat content of only 3 per cent, and to sell such milk as standard whole milk. This arrangement was maintained until March 31, 1920, while at the same time the subsidy was reduced. When, in the spring of 1920, the arrangement expired, at the same time permission to manufacture the above "standard milk" was also revoked, and it was provided that whole milk should contain not less than 3¼ per cent of fat.

So far as cheese was concerned the export duties and the maximum prices for sales to the domestic market hitherto in force were suspended after November 1, 1919; and the embargo and with it the Cheese Export Committee passed away on June 29, 1920.

The Rationing of Sugar.

The ending of the sugar agreement was delayed because there was a desire to maintain the low price of household sugar, brought about by the agreement and without cost, to the Treasury, as long as possible. By an act of April 14, 1919, the Home Secretary was, therefore, again empowered to make an arrangement for the coming sugar year by means of an agreement with the factories on the basis of a guaranteed price to the beet growers of kr. 2.40 per 50 kilograms. But as it was to be feared that importing from foreign countries might take place at lower prices, whereby the whole financial basis of the arrangement would be displaced, the importing of sugar was prohibited. At the same time rationing was abolished, so that—in addition to the rationed quantity at kr. .58—anyone might purchase any quantity at a price of kr. 1.40. The difficulties in exchange, however, brought about a reintroduction of the rationing of sugar with the same amounts and the same rebate arrangement as before October 31, for the purpose of releasing a quantity of sugar for export; and in February, 1919, a prohibition was also issued against the import of confectionery.

As, during these months, the price of sugar in the world market was increasing—it rose to about kr. 2 per kilogram—and as it was a presumption that the price of sugar for industrial purposes would

follow the world price, the price of household sugar was increased by 10 öre, and the price of sugar for industrial purposes by 20 öre in March, 1920.

Hides, Leather, and Footwear.

The provision to the effect that imported footwear must only be sold with the permission of the Extraordinary Royal Commission was amended in March, 1919, so that imported footwear might be sold without special permission, but subject to the same rules regarding profits, etc., as footwear manufactured in this country. As, besides, the prices of imported footwear were now falling, and the price of footwear manufactured in this country was also falling, manufacturers were permitted to cease stamping prices on the soles, and retailers were allowed to make adjustments in the prices of their stocks, and to mark the new prices after such adjustments. In November, 1920, the embargo on leather shoes was lifted, and in January, 1921, all ordinances governing the sale of boots and shoes were rescinded. The regulating of profits had, however, already become a small matter, because the fall in prices during 1920 had materially curtailed the profits of shoe factories.

Shortly before, the hide-and-leather arrangement had been abolished. For it appeared when stock was taken of the existing quantities of hides in June, 1920, that the stocks in this country were sufficient; and, furthermore, the maximum prices fixed for hides and leather were higher than the prices actually paid. Moreover, when—on June 29, 1920—the hide-and-leather arrangement was abolished, the embargoes were also lifted.

The Fisheries.

As mentioned in the preceding chapter, the Act of November 1, 1918, had reauthorized the Government to grant subsidies toward the reduction of the price of fishing supplies of every kind for a period up to April 1, 1919, as more abundant supplies of such things could be expected after the coming into force of the American trade agreement. By an act of June 9, 1920, the Government was empowered to advance loans for various purposes, *inter alia*, kr. 500,000 as a trading capital for our fishermen. The unemployment benefits to fishermen were also extended to March 31, 1921.

In the course of March, 1919, practically all maximum prices of

fish, whether fresh, salted, or smoked, were abolished, while the provision that all fish caught by Danish boats should be taken to Danish ports—with the resulting control of exports—was maintained. But on July 15, 1919, these last provisions in the fishing arrangement were likewise abolished.

Coal and Coke.

Toward the end of 1918 the scarcity of coal in Great Britain, caused by a reduced production that could not meet the requirements of the home market, became so pressing that in the beginning of November an embargo was placed on coal from Scotland to neutral countries, and in the beginning of December a similar embargo was put on coal from England. These embargoes were kept in force till the middle of January, 1919. At the same time the armistice and the revolution in Germany had the effect that the supplies from that country largely fell off. Abundant supplies of coal and coke during the spring and the beginning of the summer eased the fuel situation somewhat. But a miners' strike then broke out in Yorkshire; and when, at the end of August, this strike was brought to an end, another situation developed which again largely diminished the exports of coal to this country. For the British controller of timber demanded that Danish ships carrying coal from Great Britain and desiring bunker coal, should, in return, take a cargo of timber from the Baltic to Great Britain at a fixed freight rate that was comparatively low. At first we would not agree to this, though finally we had to give in. But at the end of September a railway strike broke out in England, and an embargo was placed on coal and coke. The strike lasted only seven days, and shipments were gradually resumed. Yet at the same time harbor strikes in Denmark also affected the regular supply; and all this together resulted in the reintroduction of the abolished restrictions.

At the end of 1919 and the beginning of 1920 new and material difficulties in the coal supply were caused by the fact that the British, and especially the Scotch miners extended their Christmas holidays far into the month of January. As imports from the United States had become insignificant, because of strikes in that country, and also on account of the great rise in the dollar, and as Germany's export capacity was very limited, and lapsed entirely after the Spa Agreement of July, 1920, there were, on the whole, reasons for con-

cern and for practicing strict economy. But, furthermore, another situation developed: Among the arrangements which the Foreign Exchange Committee, appointed in December, 1919, desired to make in order to improve our balance of trade was a curtailment of the imports of coal. The Committee, consequently, gave out foreign money only to pay for coal brought to this country by vessels under the management of the Shipping Committee. This provision was of no great importance, partly because Great Britain at the same time curtailed coal exports very drastically (60,000 tons a month were assigned to Denmark, while the Shipping Committee estimated that under favorable conditions it would be able to bring over 200,000 tons), and partly because at the end of March a new strike broke out in the port of Copenhagen, which lasted six weeks. Taken as a whole, the situation was so serious that the Home Secretary on February 23, 1920, severely restricted the consumption of gas and electricity. The local councils had to limit consumption to two-thirds of that of 1913.

In the course of the summer, however, exports of coal from Great Britain increased. As, at the same time, prices were subject to an extraordinary rise, caused by the fear of a new miners' strike, this brought it about that importers made heavy purchases, and frequently forced prices upward by competition among themselves. In June, 1920, the Home Office advised large consumers of coal to make joint purchases. No agreement regarding joint purchases was, however, arrived at, because even before the opening of the negotiations such large quantities had been contracted for that the question had lost its practical value. The British miners' strike broke out on October 16 and ended on November 5, 1920. But at the same time the depression in world trade set in. The demand for, and the consumption of coal decreased; and we were furnished with sufficient quantities by the summer's imports. Consequently, there was no reason to maintain the restrictions any longer. The provisions in force for the limitation of the use of foreign fuel and the calculation of prices for it were, therefore, suspended. And the Government Coal Distribution Committee was dissolved.

Firewood.

For the furtherance of the domestic production of fuel the Act of October 31, 1919, provided that during the winter of 1919-1920

forest owners were individually to cut 60 per cent of the quantity provided for by law for each owner during 1918-1919, or a total of about 450,000 cubic meters. They were—contrary to former regulations—allowed to fell more than the quantity which they were bound to fell.

Although in the spring of 1919 the bill for a prolongation of the Fuel Act had given rise to a somewhat bitter political debate, the bill passed rather peacefully through both houses of the Rigsdag in the autumn of 1919. In the spring of 1920 the Government was turned out; and when autumn came the new Government dared not let the fuel legislation lapse. It was, especially, the imminent British miners' strike which, at that time, was anticipated with concern. The chief provision of the new Act was, that during the winter of 1920-1921 a total quantity of firewood should be provided for the whole country equal to the quantity procured by the compulsory felling of 1919-1920.

After January 1, 1921, conditions had, as previously mentioned, altered to such a degree that the Home Secretary stopped the compulsory felling, in so far as the orders from the local districts had been executed.

Peat.

As in the case of firewood, the public arrangements for obtaining peat remained in force till 1921. Production, estimated at 2,700,000,000 pieces in 1919, and 4,500,000,000 in 1918, was estimated at upward of 4,000,000,000 for the season of 1920.

The Manufacturing Industries.

While, as will appear from the above, agriculture, as a whole, had experienced great difficulties in getting into full production again after the War, conditions were materially better for other industries. The empty stocks and the lack of many kinds of goods, both on the home market and in other countries, caused a great demand, and as the freighting in of supplies made it possible to resume manufacture with little delay, employment in Denmark's industries increased to such an extent that in May, 1919, it had reached normal, and later it even went above it.[1] It is true that industrial conditions especially

[1] Cf. the summary of unemployment on page 492.

in 1919 were exceedingly unsettled, and that coal prices in 1919 were six times, and in 1920, ten times normal. But up to the autumn of 1920 conditions were generally satisfactory; the more so because the steady fall in the value of the Danish krone was felt to be an increased protection against imports from abroad, and also facilitated exports to a considerable extent. But in February, 1921, the unemployment percentage reached almost twenty-five.

3. Prices and Temporary Allowances on Account of the High Cost of Living.

The Movements of Prices.

From the time of the conclusion of the armistice to March, 1919, the world price level dropped by about 10 per cent. But prices commenced to rise again during the next eighteen months, until in this country they culminated in November, 1920, with a wholesale price-index number of 403, while the retail price-index number for the nearest period available (January, 1921) was 264; and in November it may be estimated to have been around 275. This violent rise in prices was due partly to the movements of world prices, e.g., the price-index number of *The Economist* at its peak in March, 1920, reached nearly 325; but the increase was greater in Denmark because the value abroad of the Danish krone at the time depreciated to a great extent, its gold value being only 48 öre in November, 1920. But, finally, the ending of the price-regulating arrangement, and the increasing indulgence of the Government toward the demands for higher prices on goods which, with or without subsidies, had been kept under Government control, caused a weakening in the opposition hitherto offered to the price-forcing effects of the heavily increased credits.

General Price-Regulating Provisions.

Both business and the political Opposition now demanded that the fairly unlimited powers to regulate prices provided for in the Act of August 7, 1914, should be abolished; while the Government, in view of the strongly rising price level at the time, and on account of the resultant social unrest, would not renounce its authority in this respect. In March the Government found itself politically compelled to bring in a bill which became law on April 11, 1919, for the "liqui-

dation of the extraordinary arrangements made in pursuance of the Act of August 7, 1914 to regulate the prices of foodstuffs and commodities, and for the suspension of this Act."

Pursuant to this "liquidation act," the Act of August 7 ceased to have effect on September 1, 1919, after which time the Home Secretary could not issue ordinances regarding the regulation of prices except with the sanction of a "liquidation committee" consisting of eight members appointed by the Rigsdag.

A Royal Ordinance abolished the Extraordinary Royal Commission in January, 1921, and this Commission was replaced by a "Consultative Committee" with the former head of the Commission as chairman and a representative of each of the four political parties as members; and on January 21, 1921, the provisions regarding undue exploitation of prevailing conditions and regarding "chain-transactions" were rescinded, except for the few commodities (grain, sugar, spirits, etc.) which were still under government control, and on which embargoes had been placed.

High Cost of Living Legislation.

By an act of June 30, 1919, a liquidation of the high cost of living legislation was begun, which was deemed warrantable in so much as the wage level had now attained a height corresponding to that of the price level, and also because, by a revision of the acts regarding the payment of the civil service, it was intended fully to compensate the lowest paid officials for the high cost of living; but, furthermore, liquidation was necessary in view of the financial position of the country, which demanded relief from the great expenses hitherto incurred. Thus, in pursuance of the high cost of living acts the local districts had paid, during the two fiscal years 1917-1918 and 1918-1919, a total of about kr. 176,000,000, the share of this amount which was to be paid by the Treasury amounting to approximately kr. 85,000,000. The Act of June 30, therefore, canceled the special subsidy provided by Section One of the previous high cost of living acts for the reduction of the price of rye bread, pork, and butter; on the other hand, the same Act placed kr. 500,000 at the disposal of the Home Secretary for distribution to local districts which were in financial difficulties. By the Act of October 31, 1919, the special Food Acts were finally abrogated, the provisions still in force—apart from those of the Grain Acts—being in-

cluded in the said Act, which empowered the Home Secretary to regulate the price of rye bread, and to fix the price of sugar; the Act further provided rules for the ending of the rationing of pork, as dealt with in detail under other respective headings.

By an act of March 29, 1920, the actual high cost of living legislation was abolished, the subsidy for the reduction of the price of fuel being discontinued; but, in return, a somewhat larger subsidy was granted to the local relief funds.

Unemployment Benefits.

When, on December 31, 1919, the provisional act governing extraordinary unemployment benefits expired, an incipient return to normal conditions also took place in this respect, and a new act of December 22 appeared as an act to amend the Act of April 8, 1914. That is, this new act definitely affirmed that unemployment benefits should again appear as insurance and not as actual benefits.

The stagnation brought about, above all, by the fall in world prices during 1920-1921 was now the cause of such new and extensive unemployment that it became necessary for the Government to render aid; and a new act shifted all such extraordinary assistance to the Aid Fund, which became entitled to have three-fifths of all its expenses in connection with aids to the unemployed refunded by the Treasury. Furthermore, by special grants, kr. 2,750,000, and later on a further sum of kr. 5,000,000 were made available for advances to the unemployment funds which, on account of the unusual conditions, had difficulties in meeting their statutory obligations.

4. *Financial Conditions.*

The Stock Exchange.

As shown in the summary on pages 557-558 a fall in the prices of shares commenced in the middle of 1919, which fall was especially marked in the case of bank shares and industrial shares, and less so in that of shipping shares. When, however, large dividends were declared at the beginning of 1920, the market tone again became better to some extent; and prices again went up, especially those of shipping shares. On the whole, 1919 had been a record year for the shipping trade, on account of the cutting down of the high insurance premiums, and the cessation of the long delays in port, caused

by the blockade. But this improvement in the prices of securities could not be maintained in the face of the altered conditions which set in on the money market in connection with the fall in freight rates, and the other forerunners of the world crisis.

In order to halt the *débâcle* on the Stock Exchange—especially in view of the prices of bank shares—the Minister of Trade in November, 1920, issued a supplement to the Stock Exchange Act, according to which bear transactions that affected companies with a share capital of less than kr. 5,000,000 were forbidden to members of the Exchange, and sales of other securities which were not lower than those quoted on October 15, 1920, or not lower than the buying price last quoted. Prices, however, continued to fall, for which reason a statement was issued to the effect that the leading banks would, to an increased extent, support the Stock Exchange and relax the rules governing the granting of loans.

But these efforts to support the Exchange by credit extensions were in opposition to the efforts to strengthen the value of the krone —which, as mentioned, was declining—through a curtailment of credits. The National Bank which, since July 10, 1915, had maintained an unchanged bank rate of 5 per cent, increased it on January 3, 1919, to 5½; on October 6 to 6; and on April 17, 1920, to 7 per cent. Such increases of the bank rate proved powerless to check the increases in advances, or the depreciation in the value of the krone. But they were an indication of attempts to do so, and, therefore, not very consistent with an increased granting of loans on Stock Exchange securities.

While the new shares and bonds offered in 1918 had amounted to kr. 250,000,000, and, in 1919, to kr. 190,000,000, the figure for 1920 was reduced to kr. 40,000,000. Likewise sales of shares in the stock exchange were reduced from kr. 520,000,000 in 1919 to kr. 240,000,000 in 1920, and to about kr. 150,000,000 during the two years following. As regards bonds, the turnover on the Stock Exchange was increasing, *inter alia*, on account of the issue of the large Danish government loan in 1919.

The Rates of Exchange.

It has already been said that concurrent with this reduction in the prices of Stock Exchange securities there was a very serious depreciation in the value of the Danish krone. From its position on

the old gold-par level (calculated in accordance with the dollar rate) the value of the krone depreciated to below 50 per cent in November, 1920. In the introduction to this chapter we enumerated a number of factors which contributed to this great fall. As a whole, it must, of course, be said that it was the influence of these various factors on the extension of the credits of the banks, and consequently this extension which was the decisive cause. But in addition, exports had failed, and with them were lost the natural sources for meeting at least part of the demand for foreign moneys brought about by the extension of credits. Besides, as also previously mentioned, the price of coal rose to such an extent that while in 1913 we had imported 3,500,000 tons of coal and coke, to the amount of kr. 70,500,000, we had in 1919 to pay about 230,000,000 gold kroner for 2,300,000 tons, and in 1920 even some 340,000,000 gold kroner for 2,700,000 tons. When in 1919 and 1920 the excess imports amounted almost to 3,000,000,000 of paper kroner, this heavy increase was not due solely to the fall in the value of the krone, but also to a one-sided increase in the prices of the goods imported.

Credits and the Balance of Trade.

Concurrent with the advances by the banks, which rose from kr. 2,300,000,000 in the middle of 1918 to kr. 3,100,000,000 in the middle of 1919, and to kr. 3,500,000,000 in the middle of 1920 when they reached the highest point and caused prices and foreign exchange to rise, there were various unfortunate conditions in international trade which accentuated the rise in prices and the fall of the krone, and which could not be offset by the amounts due us from abroad at the time when the War ended. If we calculate this amount at about kr. 800,000,000, it will appear from the official showing of the balance of capital as regarded foreign countries drawn up at the end of 1920, that they had been expended, and that, further, a debt of 700,000,000 had been incurred. In this connection we must, however, add that supplies had been replenished, the stock of cattle restored, that Sleswig had been placed in a better condition after the neglect of the years of war, and that the compensation to Germany for the taking over of German government property and the proportion of the German national debt had been paid.

Meanwhile rather an unfortunate change had occurred in the composition of imports, the goods imported by us during 1919 and 1920

being to a material extent finished articles, which the Allies, especially in 1919, were very anxious to sell us, while during both these years we received far smaller quantities of maize, oil cake, and coal than before the War. At the instance of the banks negotiations were opened in order to find means to improve foreign-exchange conditions by checking the import of such foreign goods as were not strictly necessary, and increasing the export of domestic goods. As a first practical arrangement, a rationing of sugar was reintroduced in January, 1920, while attempts to force the export of pork met with Great Britain's unwillingness to take more than a fixed small quantity. Furthermore, a "Joint Foreign-Money Council" was established on December 14, 1919. Thus the agreements hitherto existing between the leading banks assumed a settled form, so that the Council partly controlled and partly supported the joint attitude taken by the banks toward customers desiring foreign moneys. The business of the Council was carried on in this way: Representatives from the leading banks—at first alone and later on assisted by representatives from the business world—at daily meetings in the National Bank made joint decisions regarding the applications for foreign moneys received from the customers of each of the banks.

Efforts were made, in the first place, to limit imports of superfluous goods, and to increase exports. The general point of view as to restrictions on foreign moneys, at the time in question, was that by this means the demand for foreign moneys might be reduced, and the weakening of our financial position caused by the great influx of commodities avoided. While the rates of exchange were rising, foreign moneys earned were kept away from the Danish market, and everybody tried to procure as many foreign media of payment for future use as possible. That a limitation of imports alone, with no simultaneous restriction of credits, could only have a passing effect, is a different matter; but in view of the import conditions prevailing in the first months of 1920, a limitation of imports would surely have been expedient.

An attempt was, however, also made to give the agreement between the banks—made under the auspices of the Joint Council—the greatest possible effect. After thorough discussions in the Council, it was decided that this object could be attained by providing that no goods should be brought into the country, unless it was proved to the customs authorities, by means of a "foreign-money certificate"

issued by the Council, that the Council had granted a permission that covered payment of the goods in question.

But a bill to make this law was rejected by the Folketing; and when the Zahle Government was ousted and the Rigsdag was dissolved, this bill was not brought in again.

After some futile negotiations with the Minister of Trade in the new Government, the Council was dissolved on June 4, 1920.

The banks had then, of their own accord, to try to get through in the best possible manner; and they drew heavily on their foreign correspondents, while the National Bank, as mentioned, increased its bank rate to 7 per cent. But the rates of exchange of the moneys of the Western Powers rose rapidly toward the end of the summer because, amongst other reasons, the large accounts which the other Scandinavian countries, and especially Norway, had with the Danish banks were withdrawn mainly in sterling for the purpose of meeting obligations for ships, etc. Under heavy pressure from the Opposition the new Government then commenced to reconsider the matter of government intervention, and the Minister of Trade on September 4, 1920, appointed a "Committee for the purpose of considering the causes of the present condition of Danish money in the world market, and for the purpose of advising the Minister regarding arrangements aiming at an improvement of this situation." Conditions were now much more difficult than in the spring, the world crisis having already set in.

The Foreign-Exchange Committee of 1920.

Great Britain still maintained its restrictions upon our exports of agricultural produce; and our manufacturing industries were stagnating on account of the increasing scarcity of demand, caused by the expectation of a fall in prices, and imports of cheap goods which were being dumped on the market from abroad.

A majority of the members of the Committee agreed upon a prohibition of imports for such goods as were not absolutely needed, and upon an increased reduction of the rations of sugar, wheat flour, etc., in order thereby to increase the country's exports of these goods. Two minority parties took exception to these regulating arrangements; one of these parties proposed an increase in duties, and the other that there should be no intervention at all. But one member of this minority held, however, that a restriction of the credits from the

banks would be a sufficiently effective means by which to improve the Danish krone rate.

The Government, whose sympathy with the arrangements first proposed must be considered as rather slight, did not feel bound by proposals made, but issued a statement to the effect that for foreign political reasons, and for reasons of customs practice, and otherwise, it considered it advisable only to agree to a prohibition of imports to a considerably smaller extent than proposed, and it further thought that the objects which could be attained in this manner, and also by a further reduction of rations, would not outweigh the drawbacks attached to these proposals. Neither could the Government agree to the proposal to increase duties. It stated that the aim of the efforts made must be to give consumers the benefit of the fall in prices on the world market, while at the same time negotiations were carried on with foreign countries for the purpose of improving the possibilities of our trade.

But the fall in prices set in and suspended imports, while at the same time exports were increasing. The excess of imports—kr. 1,281,000,000—was reduced to kr. 133,000,000 in 1921. Furthermore, large foreign loans were taken up; the balance of trade and the balance of payment were settled; and the question of foreign-exchange conditions no longer engrossed public attention.

The increase in the external value of the krone, as a result of the fall in prices at the end of 1920, was so great that the value of the krone for a short time approached the old par. From November 25, 1920, to January 25, 1921,—in other words in the course of two months,—sterling exchange thus fell from 25.83 to 18.85. But this fall was caused by a complete disappearance of the demand for foreign moneys; and as, of course, no corresponding restriction of credits could be made, foreign exchange rose again. The advances of private banks from the middle of 1920 to the middle of 1921 were thus only reduced by kr. 50,000,000, while the reduction in advances made by the National Bank was, comparatively, greater.

In 1921 rates of exchange and prices reached such a low level that at the end of the year the wholesale price-index number was about 180, and sterling exchange was ruling between 20 and 21. Prices and rates of exchange were maintained at this level during 1922; but there was an upward trend in the course of the year; and in 1923 this tendency gained headway. The external cause seems to have been

unrest with regard to the *Landmandsbank* and the reorganization of this, the largest bank in the country, in September, 1922 (Act of September 21, 1922). But the internal basis for the increase had existed before that time. Thus, the support given by the National Bank to the *Landmandsbank* and to other banks that were in difficulties had, in the course of 1922, increased advances above the level attained during the boom period in 1920; and in the middle of 1923 sterling exchange had again increased to 26. The great unrest this caused, and the serious attacks to which the National Bank was exposed on this account, caused the Bank to increase its bank rate from 5 to 6 per cent on May 1, 1923. The rate had on May 4, 1921, been reduced from 7 to 6½, on July 5 to 6, on November 4 to 5½, on April 25, 1922, to 5 per cent, and had there remained unchanged for upward of a year. But after negotiations with the Government—which had not desired to take such a step—the National Bank also called a foreign-money conference for a discussion of the difficult position into which the country had again been brought.

The Foreign-Money Conference, 1923.

The conference which included representatives of the banks, of business in general, and experts in financial theory, prepared a joint report on October 24, 1923. Both the negotiations of the conference and the joint report bore witness to the fact that the same decisive importance for the value of the krone was not now attached to the balance of trade as had been the case in previous foreign-money negotiations, and that the influence of the credit policy as a concurrent factor was recognized to a greater extent than hitherto. This was directly expressed by the fact that the conference, besides advising provisional arrangements for the reduction of imports and consumption, also proposed the establishment of a foreign-exchange equalization fund of £5,000,000, whereby means were to be given to the National Bank to neutralize chance fluctuations of the rates of exchange, and whereby, chiefly, some certainty might be created that the Government which was to contribute to the fund, as were the leading banks, would feel thereby bound to render assistance to these banks by pursuing a financial policy which would reduce the demands of the Treasury on the credit market, and thus make it easier for the banks to meet the demands which on the whole were made on them. By an act of November 16, 1923, the equalization fund was estab-

lished as an Anglo-American cash-credit of £5,000,000; this brought it about that sterling exchange, which on November 9 had risen to kr. 26.50, in the course of a few days had receded to about kr. 24.50. But otherwise no arrangements were made. The public, consequently, did not feel sufficiently confident that the value of the krone had been finally settled. And the demand for foreign media of payment became so heavy that the fund was exhausted in the course of a short time. From January 19 the National Bank, therefore, ceased to give out sterling from the fund at kr. 24.50 and sterling again rose till on March 11 it reached kr. 28.

Under these circumstances, and not till then, did the National Bank, on January 16, 1924, raise its bank rate from 6 to 7 per cent; and the Government brought in a bill which became law on February 1, 1924, providing for an increase of the customs duties on a number of "luxury articles" (fruit, silks, furs, liquors, and tobacco). As mentioned, the value of the krone fell in spite of these various arrangements, and on March 5, 1924, the Government accordingly brought in a number of bills aiming at new increases in customs duties on various commodities, besides the assessment of a currency tax, supplementary to the income tax whereby it was thought possible to diminish the surplus purchasing power. Furthermore, the establishment of a "Foreign-Money Office" was proposed. Only one of these bills, namely that creating the Foreign-Money Office, became law, by the Act of March 29, 1924,—whereupon, on April 10, the Government lost its majority and was succeeded by a Social Democratic Government.

The Reduction of the Credits of the National Bank in 1924.

When these bills were brought in, the National Bank, according to an agreement with the Government, had on March 6, 1924, sent a circular letter to all the monetary institutions of the country, in which the Bank stated that it felt the greatest reluctance to grant new credits and prolong those existing, and insisted on the monetary institutions doing the same for their part. This was another step toward putting credit policy in its proper place among foreign-money arrangements. When the Foreign-Money Office, whose task it presumably was to superintend the foreign-money market, and which in particular cases could demand that foreign moneys be turned over to the equalization fund, entered on its operations, sterling again

dropped somewhat. In the first place, some foreign currency appeared on the market, and, next, the centralization of the trade in foreign money in a few banks and bankers, as enjoined by the Foreign-Money Office, caused the trade in foreign money to become more settled. But now, too, the improvement was only of short duration. Not till August was there any reduction in the advances of the National Bank, and as in wide circles a reduction of imports was considered to be of vital importance for the establishment of a higher value of the krone, and as the new Government had not been able to effect such a reduction of imports, the rates of exchange of foreign moneys rose again. In order to prevent the demand for foreign moneys from being enhanced through speculation the National Bank, in agreement with the Foreign-Money Office, maintained a sterling exchange rate of upward of kr. 25.50 during May and the greater part of June. But by then the funds of the Bank were so far exhausted that it became necessary to suspend this artificial fixing of the rate; and as, at the same time, the Rigsdag was prorogued without having arrived at any decision, the rate of exchange again went up and on August 12 reached kr. 28.25.

The Foreign-Money Council of 1924.

Under these circumstances the Government, in July, 1924, again called a conference of business and government representatives—the "Foreign-Money Council"—to discuss conditions. The negotiations of the Foreign-Money Council formed the basis of an act of December 20, 1924. Pursuant to this act the National Bank was bound—during the two years ending January 1, 1927—to reduce dollar exchange from 5.80, at which it had been at the time when the Act was up for reading, to 5.32, i.e., to raise the krone to a gold value of 70 öre. Negotiations had been carried on in the Council, just as previously in the foreign-money conference, regarding a possible fixing of the krone at a gold-par value lower than the old one. But then, as now, the question was shirked. To assist the National Bank in meeting the obligation imposed upon the Bank by the Act, it was further provided that the Government, by imposing extraordinary taxes, was to find the means wherewith to repay the loan of kr. 40,000,000 which it had had from the Bank, in order to be able to place new capital at the disposal of the *Landmandsbank* at the time of its reorganization in 1922. Thereby the reduction of credits was to be greatly

advanced. In addition, the Government gave a guarantee for a cash credit of $40,000,000 assumed by the Bank, and for the renewal of the £5,000,000 of the equalization fund.

The Foreign-Money Act of 1924.

For the first time the Government had now, with real energy, adopted a foreign-money plan. The requisite confidence was created both in the country itself and abroad. And as the arrangements made must also, for the first time, be said to have been financially rational, more particularly because of the fact that the responsibility for the compliance with the arrangements had been placed in the only quarter which could carry it through, namely the National Bank, a considerable improvement in the value of the krone set in. This was also doubtless caused by the fact that from August, 1924, the National Bank commenced to call in loans. Furthermore, the happy circumstance that the relation between import and export prices shifted in favor of exports helped in 1925, so that now the balance of trade aided the money market in a natural manner. In the course of the spring of 1925, dollar exchange gradually declined, and in May it passed kr. 5.32, which was to have been reached not later than January 1, 1927; and in September the krone had reached a gold value of more than 90 öre. As the predominant desire both of the Rigsdag and of business was to have the krone brought to par, and as there were demands from almost all sides that the present value of the krone must not again be diminished, the National Bank was obliged, by an act of December 15, 1925, to maintain a maximum dollar rate of 4.20, which corresponded to giving the krone a value of 88¾ gold öre. When, in February, 1926, the retail price-index number had been reduced to 194, a new fall in foreign exchange occurred, which brought the value of the krone up to a few öre below par. So-called "speculation," i.e., advance selling, especially of sterling, which had been practiced both abroad and within the country, and which had accelerated the rise of the krone, in connection with the quickest possible calling in of all foreign media of payment earned, had again been in operation, and had caused an increase in the debt of the Danish banks to foreign countries. This debt had culminated in September, 1925, at about kr. 200,000,000, but had since been reduced to about kr. 145,000,000, at the end of January, 1926. Now, in February, it rose to kr. 160,000,000. But it gradually decreased. A favor-

able balance of trade, and the fact that the banks had held the foreign moneys received available for repayments to foreign countries, allowed such liquidation to take place without difficulty, even if the country, of course, had to pay the owners of such krone accounts the profits incidental to the rise in the value of the krone; which profit, so far as the foreign creditors were concerned, was estimated at about kr. 20,000,000.

The Resumption of the Gold Standard.

By an act of December 27, 1926, the right to convert notes into gold, at the gold value of the old coinage act was reintroduced; the value of gold being kr. 2,480 per kilogram of fine gold. But the Gold Standard became a kind of gold-bullion standard, in so far as the National Bank was bound to redeem its notes in gold only when notes were delivered in amounts of kr. 28,000 or multiples of this amount.

Along with the reintroduction of the Gold Standard the provisional amendments to the regulations for the cover of notes lapsed; and the Act of July 12, 1907, came into force again with its provisions for a 50 per cent gold reserve.

It must also be said that the question of silver coin was still causing difficulties, because its silver value made it advantageous to melt it down, and an act of May 1, 1920, therefore, made it possible to coin 50, 25, and 10 öre pieces of cupro-nickel. One- and two-krone pieces were not coined at all, but were replaced in the circulation by one-krone notes. But another fact still made it difficult to secure the necessary supplies of coins, namely the much higher value of Swedish coin; and as extensive smuggling took place in spite of embargoes and an energetic control, an agreement was made for an amendment to the Scandinavian Monetary Union according to which each country belonging to the union was authorized to coin token money, which should only circulate and be valid within its own boundaries. Thereby the Monetary Union was made to apply to standard coin only; and in this connection it must even be noted, that Sweden, since her return to the Gold Standard in the spring of 1924, has permitted only the Swedish Riksbank to import gold.

CHAPTER VI

CONCLUSION

1. *Persons and Politics.*

The Royal Message.

The Royal Message of August 1, 1914, was a beautiful and a genuine expression of the anxiety of the Danish people and of their unanimous desire to keep Denmark out of the War; and their anxiety was so much the greater, since to the general human sympathy with the peoples of the countries at war, there was added the thought of the fate which had befallen the Danes in Sleswig, both at home and as soldiers in the German army. The desire to keep Denmark from participating in the War was also so much the greater, as all Danes—regardless of their feelings for or against any of the belligerent powers—considered it of vital importance for Denmark's future existence as an independent nation that it should not throw in its lot with either of the great contending groups.

This concord, and the pressure of the enormous danger to which everybody felt that the country was exposed, unquestionably explained why none of the political parties in Opposition desired any change in the composition of the Government during those first days of August, 1914, in spite of the willingness of the Zahle cabinet to discuss the formation of a coalition cabinet.

The Negotiations of August 5, 1914.

The knowledge of these political negotiations is rather general because of the fact that they are contained in the report of the Military Commission of 1919, together with an account of the negotiations as to whether Denmark should bar the entrance to the Baltic by mines, and thus take steps which Great Britain might consider to be an unfriendly act, or let Germany do so, and in this laying of mines run the risk of a violation of our neutrality, the protest against which might involve the country in the War. The minutes of the debate of the State Council show that the King was in favor of Denmark's undertaking the laying of the mines, and this adhesion to the original standpoint of the Government became decisive. Although it appears

that the Government and perhaps especially Mr. Scavenius, the Secretary for Foreign Affairs, in the first place considered it right that Denmark should lay the mines, and in the second place considered it impossible to postpone the decision until attempts had been made to learn the attitude of the Allies, the feelings of the principal leaders of the Opposition were so divided, that it would probably have been impossible for the Government to carry its point without the support of the King. Even though little is known of the details of the political actions of the Foreign Secretary during the War, it was probably characteristic of his policy, that from the first day he attached such a paramount importance to the fact that a firm attitude should be taken and a decision made in accordance with it. Thereby a steadiness was created in the handling of foreign affairs that undoubtedly was of the greatest importance in all the difficult negotiations with the two belligerent groups of powers.

As in the course of a few days it appeared that the Allies would not raise any objection to Denmark's mine-blockading operations, the country's chief political interest turned to questions of foreign trade and domestic supplies, regarding which negotiations with the belligerent powers had been opened; as also the maximum-price policy which caused the great grain debate in the Folketing in January, 1915. During this debate the Home Secretary, Mr. Rode, set forth the demand that "bread must be given us by the farmers at an endurable price." A limitation of the rise in the price of butter, pork, and eggs had not yet been thought of; but the price of bread must be kept down.

But still, despite the violent and at times highly political character of the grain debate, there was no serious question of acting against the Government. Not till 1916 did the question of a change in the composition of the Ministry come to the fore, and the cause thereof was the bill calling upon the Rigsdag to sanction the giving up of Danish territory.

The Cession of the Danish West Indies.

On August 7, 1916, the Foreign Secretary sent a bill to the Speakers of the two Houses regarding the cession to the United States of the Danish West Indies; and at the first reading the Foreign Secretary stressed the fact that the terms obtained were favorable, in so much as the United States as a compensation, *inter alia*,

was to pay $25,000,000; but "these favorable terms would not have caused the Government to assume any attitude toward this question other than its former one if the Government had not become convinced that continued possession of these far-off islands embodied a risk, and possibly an element of danger to the State of Denmark, in so much as the latter under certain circumstances might become involved in international complications, and that this was an untenable position." On the part of the Opposition it was not desired to have this question settled by the present Rigsdag. On account of its importance it was felt it ought to be decided by a Rigsdag elected in accordance with the new Constitutional Act of June 5, 1915. The negotiations which thereupon took place in accordance with the wishes of the King, were very difficult because of the fact that the government parties considered it to be of vital importance that the Foreign Secretary should continue to hold office in a possible new government, either as Foreign Secretary or as Premier, which the Left would not agree to. Furthermore, the Opposition desired that each of the four political parties should have three representatives in the Ministry, whereas the government parties desired to have seven representatives and leave the other two parties only six. As, on the other hand, the government parties and the Conservatives considered that an election would at that time be exceedingly unfortunate, as a discussion of the foreign policy of the country could not then be avoided, the parties agreed that the Left, the Conservative Party, and the Social Democratic Party should each nominate representatives whom the King would then appoint ministers without portfolios, and who would participate in the Cabinet and the State Council meetings. Thus a more intimate coöperation between the Government and the Rigsdag was effected. On September 30, 1916, when the Act calling for a Referendum on the cession of the Islands was given the Royal Assent, the King appointed J. C. Christensen, Chr. M. Rottboll, and Th. Stauning ministers. The referendum approved the cession of the Islands, a general election was again postponed, and a new state of "domestic party peace" was created.

But in January, 1918, Minister Christensen insisted on resigning. Minister Rottboll also resigned, the Constitutional Act of June 5, 1915, was brought into effect, and a general election to the Rigsdag followed. At the election 71 out of the 140 seats of the Folketing were won by the former government parties; and with them was one more

member who was in the same electoral group as the Radical Left. Thus, the Zahle Government had again obtained a majority in the Folketing, and the collaboration with the Social Democrats was emphasized by the fact that Mr. Stauning remained a Minister without portfolio, and later on took charge of social welfare affairs in the Home Office.

The Political Crisis of 1919.

When the War ended, in November, 1918, the Allies did not, it is true, raise the blockade against Germany, but it became possible in many ways to act more freely; and in any case the dissatisfaction with the intervention of the Government in business, which had been smoldering in many places now took fire, and it was asserted that now when the War was over, the old liberty of pre-war days must return. At the same time the defeat of the Central Powers and the consequent revolution and demobilization, caused an enormous unrest in labor circles, which also infected this country; and as the rise in prices almost immediately after the conclusion of the armistice increased at an unprecedented rate, it was impossible for the parties that had maintained that the Government had the right and the duty to limit the exploitation of the consumers by the producers and by trade, to submit to the demand for a reëstablishment of the liberty of business.

The great conflict between these two forces resulted in the political crisis of 1919. When, on February 12, 1919, Mr. Brandes, the Minister of Finance, submitted a bill to the Folketing calling for a domestic national loan of kr. 120,000,000, the amount necessary to cover the deficit of the fiscal year 1918-1919, discontent had become intense, and was blended with other feelings which were already breaking through—the dissatisfaction of middle class and farmers with the workman on account of his demands and his increasingly frequent strikes, and the disinclination in many quarters to let this government carry on the final negotiations for the return of Sleswig. The national loan bill was passed by the Folketing; whereas the Opposition brought in a bill in the Landsting and had it passed, for the abrogation of the Act of August 7. But this latter bill was blocked by the Folketing.

An agreement was not arrived at, and as the Landsting had not passed the national loan bill "within the time fixed in the agreement

made with the leading banks of Copenhagen," the Minister of Finance withdrew the bill at the meeting of the Landsting on February 28. At the meeting of the State Council on March 1 the Government submitted its resignation to the King. After various negotiations, on March 18 the Government withdrew its resignation; and on March 21 the national loan bill was again introduced in the Landsting, with a bill for the liquidation of the Act of August 7. These two bills were passed by the Rigsdag and were given the Royal Assent on April 1 and 11, respectively. With that the crisis ended.

The year which elapsed before the final overthrow of the Government was, first, marked by an increasing dissatisfaction in certain quarters with the stand taken by the Government on the Sleswig question. But, furthermore, a great unrest prevailed in the labor market, which resulted in lengthy strikes of a syndicalist nature, of which the strikes in particular in the port of Copenhagen, and the incidental difficulties in maintaining the agricultural exports, caused much resentment, especially in the rural districts. It was clear, therefore, that the community was charged both with social and political explosives, and that the political crisis of February and March, 1919, had been only the forerunner of more serious events. One occurred on March 27, 1920.

On November 18, 1919, the Government had laid before the Folketing a bill for an amendment of the Election Act; but no agreement could be arrived at with the Opposition, and the Government could not order a general election till this matter had been settled. On March 27, 1920, sittings were suspended for Easter. On March 29 an announcement was made from Amalienborg to the effect that the King had dismissed the Zahle Ministry. The new ministry was only appointed on March 30, when Mr. Liebe, barrister, became Premier. Not a member of the new cabinet had previously taken part in practical politics. The Premier had, when acting as public prosecutor in the case of a breach of the "chain transaction" ordinance, conducted rather a defensive prosecution—which, however, had resulted in a conviction,—and his being made Premier was, therefore, bound to be felt as a challenge to the parties whose government had been overthrown by an unparliamentary action. Events now developed at a tremendous rate. On the evening of March 29 the Social Democrats had demanded that the King should reinstate the Zahle Cabinet and summon the Rigsdag for the purpose of putting through

the election bill; and they threatened to declare a general strike, if these demands were not met before March 30 at 9.30 A.M. When the Liebe Government had been appointed on March 30, efforts were made to have the Government appear in the Folketing. But these were not successful. Furthermore, the Speaker of the Folketing after consulting with the Premier refused to summon it; and the Coöperative Trade Unions consequently resolved to declare a general strike, effective on April 6, to compel its summoning. On March 27 the Employers' Association had declared a lockout, as from April 9, and thus the political struggle had become linked with a labor struggle of an unprecedented extent, a natural consequence of the intimate feeling of common interests which was so deeply rooted in the social tension and the struggle against the Zahle Government. Prominent men outside of political circles now made the greatest efforts to avoid this general conflict. And when the municipal council of Copenhagen also requested the King to find means by which to avert the imminent disaster, the King on April 3 at 9.00 P.M. summoned the leaders of the political parties to Amalienborg. The negotiations lasted all through the night preceding Easter Sunday, and next day the Liebe Cabinet resigned, on the request of the King. A new cabinet was appointed when the representatives of all the parties had promised the King to coöperate with the new Government, which was to see to it that the Rigsdag resumed its sittings and its work on the election bill in order that a general election could be held as soon as possible. At the same time, the labor struggle was called off. The general election was held on April 26 and was a decisive defeat for the parties of the former Government.

In conformity with the result, a cabinet under Mr. Neergaard was appointed on May 5, 1920. This was a pure Left Government made up of the rural middle classes, which had been joined by great sections of large and small landowners, who generally did not vote for the candidates of the Left. Furthermore, the Government was supported by the big business men and manufacturers of the towns. Its task was, first, to bring about industrial peace, to help to bring about something that was already under way—the end of the Government's interferences with business during the War,—and to cut down the allowances advanced for the relief of the high cost of living, of unemployment, etc.

Danish Governments after 1920.

Conditions could not, however, be restored to normal as quickly as was desired; and since in addition to other difficulties there were now joined those caused by the depreciation of the value of the krone, dissatisfaction with the new Government also grew. By the elections of 1924 it lost its majority, whereupon a Social Democratic Cabinet, headed by Mr. Stauning, assumed power. After several futile attempts to solve the exchange problem, an understanding with regard to the Foreign-Money Act of 1924 was arrived at, by the coöperation of the Government and the Left. But the subsequent deflation of the currency again caused great financial difficulties, and as the Stauning Government could find no support for the bills brought in to counteract the crisis, the Government dissolved the Folketing in November, 1926. It became a minority as a result of the elections held in December. And the Left again assumed power, with Mr. Madsen-Mygdal as Premier.

2. *Agriculture and Manufactures.*

Production.

In the table below will be found production figures for agriculture, dairying, hog raising, etc.:

	1912	*1914*	*1915*	*1916*	*1917*	*1918*	*1919*	*1920*
	Area under Crop, in 1.000 hectares.							
Wheat	54	62	67	61	53	57	52	66
Rye	246	224	211	195	177	220	236	210
Barley	241	253	260	256	240	223	237	237
Oats	428	418	414	422	397	379	403	405
Mixed grain	180	180	180	185	195	194	202	189
Potatoes	61	65	67	64	58	75	96	88
Fodder beets	262	278	286	279	278	275	290	280
Sugar beets	32	32	32	31	31	36	42	39
	Yield per hectare, in kilograms.							
Wheat	29.6	29.1	32.7	26.7	22.0	30.3	32.0	28.4
Rye	17.5	14.7	16.0	14.1	12.8	14.7	16.7	15.1
Barley	22.9	19.6	23.8	20.8	16.2	21.0	22.5	21.6
Oats	17.5	16.4	18.4	17.8	13.8	15.9	17.1	16.9
Mixed grain	20.4	17.9	20.0	18.8	14.1	16.8	19.4	18.5
Potatoes	136	154	161	105	150	148	150	136
Fodder beets	449	415	472	416	452	447	412	423
Sugar beets	317	312	257	234	287	261	244	220
Crop units	2.85	2.49	2.73	2.59	2.05	2.43	2.64	2.55

	1912	*1914*	*1915*	*1916*	*1917*	*1918*	*1919*	*1920*
	Grain and Fodders Available, in millions of kilograms.							
Grain and beets, home grown	56.2	47.7	53.4	52.3	40.3	43.8	50.2	50.5
Hay and green fodder	15.1	15.4	14.9	15.5	15.7	15.7	14.1	15.4
Imported grain and fodder	14.2	11.4	17.7	12.4	4.9	÷0.1	5.3	6.7
Total	85.5	74.5	86.0	80.2	60.9	59.4	69.6	72.6
	Pork Production.							
Number of hogs, in millions	2.1	2.5	1.9	2.0	1.7	0.6	0.7	1.0
Exports of pork, in million kilograms	128	147	136	105	82	3	1	42
	Other Meats and Dairy Produce.							
Cattle, in millions	2.4	2.5	2.4	2.3	2.5	2.1	2.2	2.5
Exports of live and dressed beef, in million kilograms	57	64	92	94	92	42	16	33
Milch cows, in millions	1.3	1.3	1.3	1.1	1.1	1.0	1.0	1.1
Yield per cow, in kilograms	25.2	26.4	25.7	25.9	24.1	18.3	16.6	21.4
Milk production, in million tons	3.4	3.5	3.2	3.0	2.8	1.8	1.9	3.0
Butter production, in million kilograms	110	115	110	100	85	58	61	90
Butter exports, in million kilograms	85	95	102	96	62	15	37	75
Selling price per *tonde hartkorn,* or "tax acre," including both buildings and land, in thousand kroner	...	8.8	9.0	9.6	10.8	12.9	14.8	13.8

In the figures given for the area under crop it must be observed that no estimate was made of crop areas between 1912 and 1915, and consequently the figures for 1914 are only approximate. The shiftings between the wheat and rye areas are a continuation of the trend of the years immediately preceding, which perhaps, so far as rye is concerned, was somewhat increased by the fact that, according to the census of 1915, it was a question only of the area on which rye was grown till it was ripe, and not as hitherto the whole area sown with rye. Thus the areas which were sown with rye, which during the dry and early part of the summer had been used for fodder in its green state, were not included in the estimate made in July. Corresponding conditions may have caused the heavy reduction of the area sown with oats. From 1915 to 1916 there was a reduction in the wheat area and again a reduction in the rye area, while the barley area remained almost stationary, and the area sown with oats increased. That the maximum-price policy was of some

value appears from the fact that the rye areas increased from 1917 to 1918, when the price of rye rose from kr. 22.50 to kr. 26.00, while the spring wheat areas again show a decline. From 1918 to 1919 there was an increase in all the grain areas, which was probably due to the fact that a promise was held out in the Grain Act of 1918 of a bounty for the growing of grain, so that the price actually became kr. 27.00 for winter grain and kr. 24.00 for spring grain, which prices were uniformly increased to kr. 30.00 by the Grain Act of 1919 for the crops of 1919. So far as beets were concerned, the area was almost unchanged during the years of the War. The potato area increased greatly from 1917 to 1918, probably on account of the materially increased payment provided for by the Grain Act of March, 1918.

This concurrence of causes (i.e., prices, scarcity of fodders, and climatic conditions) which makes it impossible to ascertain the effect of each individual cause, will again be found in the next group of figures in the table on page 539 giving the average harvest yield per hectare. These figures were a result first and foremost of weather conditions, and next of the increasing scarcity of fertilizers. The harvest of 1914, which was affected only by weather conditions, shows, in the total yield of 2.49 crop units per hectare (a common measure for the whole harvest, calculated according to the fodder value of the individual crops), a great change from the years 1912 and 1915 which were about 20 per cent greater. The crop of 1917 was even poorer, viz., only 2.05 crop units per hectare; and even a fairly favorable harvest year like that of 1917-1918 yielded only 2.43 crop units, which was undoubtedly due to the scarcity of fertilizers, the effects of which it took several years to remove.

These shiftings of areas and changing conditions in the yield had the result that only about 55,000,000 kilograms (according to fodder value) of home-grown crops were available in 1917 and 1918, as against about 70,000,000 before the War. To add to this there was the halting of supplies of corn and fodders grown abroad; and the total available quantity of home-grown and imported grain and fodders during these years of blockade was reduced to about 60,000,000 kilograms as against about 90,000,000 before the War.

The following figures show the great falling off in the breeding of hogs, even though the lowest figure (about 400,000 head in April, 1918), did not come in the middle of the year, and, therefore, is not

included in the table which, as a rule follows a census taken in the months of July.

Corresponding information is given for the production of meat, milk, and butter. The meat export figures indicate the estimated quantity of salable meat in the case of stock exported either on the hoof or slaughtered. It appears that the stock of cattle was maintained almost at a level, as also the exports of meat, until the Central Powers became unable to pay for such exports. With regard to the production of milk, the figures for the average yield of milk per milch cow give a clear picture of the effects of the scarcity of fodders. From about 2,600 kilograms per cow per year, at the outbreak of the War, the yield dropped to below 1,700 kilograms in 1919. The decrease in the yield of milk and some reduction in the number of milch cows caused a reduction in the production of milk and butter, which, according to the table, amounted to about 50 per cent. If we compare the figures for the production of butter with those for butter exports, it will appear that the domestic consumption, which at the outbreak of the War amounted to upward of 20,000,000 kilograms, dwindled during the first years of the War; then, after the suspension of the production of margarine and the introduction of rationing, it increased to 23,000,000 kilograms in 1917, to 43,000,000 in 1918; and the figures were from 20,000,000 to 25,000,000 kilograms in 1919 and 1920.

Finally, in the last section of the table, we find the average prices paid for farms of more than one *tonde hartkorn* (including both buildings and land but without live stock and implements). It will be seen that prices did not increase to double those of 1914 in spite of the fact that the retail price-index number rose to 275, and the wholesale price-index number to 403. This is an indication of the difficult and uncertain conditions under which farmers were working.

Manufactures: Production.

While the shifting in agricultural production during the War may be inferred fairly easily from the table on page 539 because of the great uniformity of agricultural industry, attempts to find a common expression for the changes in industrial production meet with great difficulties, on account of the differing importance of its individual branches. Besides, annual statistics of production were not gathered till 1916, and include only certain industries. These defects

in our material do not, however, make it impossible to obtain, at least approximately, some general average and total for production during the War. Such an index number for industrial production during the years 1916-1921 (the quantity produced in 1913 being taken as 100) shows an increase up to 1916, for which the index number is 120, an increase which, however, is most marked in the case of the tinned-goods and leather-goods industries, etc., but which is also found to apply to practically all branches of industry. In 1917 the total production returned to the level of 1913, or 101, as some manufactures, especially the oil, margarine, and cement industries, gave a smaller production, whereas the tobacco, tinned goods, and in part the textiles gave a larger production than did the year which is used as a standard. In 1918 the raw materials accumulated before the blockade were consumed, with the result that the oil and margarine industries show a decline. The index number for the year consequently went down to 81; but during the two subsequent years it rose to 129; and during the slump in 1921 it again fell to 103. According to this the total production of our industries during the most difficult year of the War, 1918, must have been decreased to four-fifths of the production of 1913. A proportionally similar decline set in, in the production of wheat and fodders, as shown in the summary on page 540; while the production of milk was cut in half, and that of pork almost completely suspended.

3. *Industries and Labor.*

The changes in industrial production mentioned above, of course, became of deciding importance for the relations between industries and workers, especially as regarded wages and the negotiations incidental to the fixing of wages. In this connection it must be said, that on account of the unsettled state of affairs during the first years of the War, which otherwise brought about favorable conditions for industry, the relations between employers and workers were quiet; and during the years of the blockade similar conditions prevailed, because the possibility of finding employment had then become very limited. The worker could not, therefore,—as is normally the case—take advantage of his power in prosperous times; and not till 1918 did wages reach the level of the general increase in prices, as appears from the following figures:

Wages Index.

	With full employment throughout the year		*Allowing for labor conflicts, unemployment, etc.*	*Number of working days (in thousands of days), lost through labor conflicts, etc.*	*Number of days (in thousands of days), lost by unemployment*
	(Nominal wages)	(Real wages)			
1913	100	100	100	382	2,209
1914	100	100	98	56	3,149
1915	102	88	88	32	2,714
1916	118	87	89	241	2,113
1917	133	86	84	214	4,474
1918	170	95	83	195	11,671
1919	268	125	118	916	9,056
1920	331	127	126	1,306	4,780
1921	319	138	115	1,321	16,450

As appears from the figures in the second column, the real wages were reduced by about 12 per cent in 1915, and during the subsequent years the workers barely succeeded in keeping the real wages thus reduced on a level with the increase in the cost of living. During the first months of 1916 about 600 of the 700 agreements in force expired, and at the end of 1915 negotiations regarding their renewal were opened. The employers desired to have the agreements prolonged to February 1, 1917, to avoid paying additional wages to compensate the workers for the high cost of living; but the workers wanted to get their share of the current prosperity by an actual increase of wages. As a whole, the negotiations were marked by a desire to arrive at an understanding in these difficult times, and agreements were also made in the staple trades, especially the engineering, footwear, and tobacco industries, before the old agreements expired. It was calculated that the agreements which were up for renewal affected 80,000 workers, and that these workers obtained a total increase in wages of about kr. 12,000,000, or from 10 to 15 per cent; and in a number of cases an addition to compensate them for the high cost of living was included.

The agreements were renewed for two years; but, unofficially, wages were increased in 1916 and 1917 by high cost of living bonuses, and were thus kept on a level with the increase in the cost of living, as shown in the table. Thereafter agreements were again re-

newed for one year, in the spring of 1918, in consideration of an extra bonus on account of the high cost of living; and the agreement between the engineering industry and its workers contained the first provision for an automatic regulation of wages in accordance with the price-index number during the life of the agreement. As the price-index number calculated for July, 1918, amounted to 182, as against 166 in February, an "August regulation" took place, which on an average amounted to 12 öre per hour increase for all male workers. At the end of 1918 the average earnings per hour for all male workers amounted to about 104 öre, as against about 52 öre in 1914; which meant that now and finally the same real wages had been obtained as those paid in 1914. During the following two years wages went up more rapidly than the price level. And even when, in 1921, during the great slump, a reduction was made in nominal wages, real wages remained at a higher level than in 1914.

When, in the spring of 1919, wage agreements were again up for renewal, the workers were not content with the high cost of living regulations, but demanded, and obtained, a revision of the actual agreements, whereby new and increased rates of pay came into force, partly for the January and partly for the April quarters. But besides the improvements in wages obtained in January and April the workers demanded, and obtained, an "August regulation" in accordance with the price-index number of July, 1919, for the new agreements, whereby wages were again greatly increased. At the same time (in May, 1919), labor secured the eight-hour day, to come into force not later than January, 1920.

It would seem, however, that the bow had now been bent too far; and political developments also contributed to the fact that, at the negotiations for the renewal of the agreements in the beginning of 1920, the employers categorically refused to agree to any new increase in wages. And, as the negotiations made slow progress, notice of a widespread lockout was given in March, to take effect on April 9. As mentioned above, the political crisis induced the workers to threaten a general strike. Under its menace a general agreement was concluded; and the labor struggle was brought to a close, in so much as the Employers' Association and the Coöperative Trade Unions effected a compromise to the effect that the wages in force on the whole should remain unaltered, and that there should be regulation, in August, on certain fixed lines. By this August regulation wages were

increased 13 öre per hour. When a middle-class government then came into power, while at the same time financial conditions as a result of the great slump in the autumn of 1920 became exceedingly difficult, and the decline in unemployment was suspended by a new violent rise, conditions on the labor market became comparatively quiet; and when the agreements came up for renewal in the spring of 1921 the employers after extensive lockouts forced through a wage reduction of 13 öre per hour, and also an August regulation. By this regulation wages were further reduced 18 öre per hour, and as these reductions were made for all rates of wages the lowest-paid workers were hit hardest.

4. *Public Finances.*

Whether the policy of public aid and reduced prices actually diverted profits from the rich to those less well-to-do, or only assisted in relieving the social tension,—for an improvement in wages was thus brought about which would otherwise have caused a struggle between employers and workers,—all arrangements of this sort caused the public finances to become a far more important link in the whole social structure than they hitherto had been.

In order further to illustrate this, it would be reasonable to begin with a table of material public expenditures for civilian purposes, which summary will be seen below. But in it the distribution of the various items must be taken with reservations.

The table covers the five years from the fiscal years 1916-1917 to 1920-1921, during which the expenditures here mentioned were made. During the years 1914-1915-1916 together the corresponding expenditures amounted to an aggregate of about kr. 10,000,000; and during the years following 1920-1921 there were, indeed, great expenditures incidental to the unemployment during the slump in 1921, and to the building of dwelling houses, so that the total expenditures of the Treasury and of the local district funds for the purposes included in the table, during the fiscal years 1921-1922 and 1922-1923, amounted, respectively, to kr. 110,000,000 and kr. 65,000,000. For the actual war years, the amount is about kr. 915,-000,000, in which amount are included the expenditures listed for the Grain Act of 1920, but not a number of smaller items incurred in the war period (various goods, administration, etc.). The total may,

therefore, be estimated at about kr. 950,000,000. As this figure in itself does not mean much, because it has been compiled from greatly varying krone values, we shall try to make possible a further estimate of the significance of the amount, partly by making a comparison with the aggregate income of the community during the years in question, whereby an idea will be gained of the social importance of these arrangements. Such calculations are shown in the table below.

Extraordinary Expenditures by the Treasury and the Local District Funds.

(in million kroner)

(a) *Government expenditures for the support of the people:*

	1916-1917	*1917-1918*	*1918-1919*	*1919-1920*	*1920-1921*	*Total*
Butter	...	13.9	70.0	1.3	÷1.3	83.9
Milk	...	8.0	5.5	9.1	2.4	25.0
Pork and other meats	5.1	13.1	60.7	31.5	3.2	113.6
Breadstuffs and potatoes	5.9	21.9	36.7	81.3	93.1	238.9
Sugar	...	...	÷7.4	7.7	...	0.3
Maize and fodder cake	2.3	2.9	7.6	0.2	9.8	22.8
Purchases of foreign fuel	...	÷1.3	...	3.6	0.6	2.9
Local aid to meet high cost of living	6.3	19.2	65.2	46.4	17.8	154.9
Local works (including building of dwelling houses)	...	...	0.9	2.6	6.3	9.8
Unemployment allowances	1.0	16.0	30.6	20.6	7.7	75.9
Subsidies to aid local funds	4.3	3.7	1.9	1.3	0.6	11.8
Total government expenditures	24.9	97.4	271.7	205.6	140.2	739.8

(b) *Disbursements from local district funds, for:*

Unemployment allowances	0.7	0.8	1.4	2.0	7.3	12.2
Local grants to local charities	3.0	2.1	3.7	2.4	2.9	14.1
Local grants to meet high cost of living	14.2	33.4	58.4	33.1	÷3.4	135.7
Total disbursements from local district funds	17.9	36.3	63.5	37.5	6.8	162.0
Grand total	42.8	133.7	335.2	243.1	147.0	901.8

It then appears that the (approximately) kr. 950,000,000, above, when converted into 1914 kroner according to the retail price-index number, amount to about kr. 485,000,000, and according to the wholesale index figure to about kr. 335,000,000. This must be considered along with the total incomes of the taxpayers in the calendar years nearest to the fiscal years in which the expenditures were made, or, respectively, to kr. 13,500,000,000 nominally, and to kr. 6,800,000,000 according to the retail price index and to kr. 4,800,000,000 according to the wholesale index figure. Accordingly, the extraordinary expenditures by the Treasury and the local district treasuries for civilian purposes during the five years taken as a whole amounted to from 7 to 8 per cent of the income of the taxpayers; but it must be borne in mind that the greater part of the taxes which were necessary to cover these expenditures were assessed according to a markedly graduated scale.

Extraordinary Public Expenditures and the Income of the Taxpayers.

(in million kroner)

	1916-1917	*1917-1918*	*1918-1919*	*1919-1920*	*1920-1921*	*Total*
Extraordinary expenses						
Nominally estimated	43	134	335	244	147	903
According to						
(a) the retail price-index number	31	83	180	108	56	458
(b) the wholesale price number	24	55	115	79	41	314
Total income of taxpayers	(1916)	(1917)	(1918)	(1919)	(1920)[1]	
Nominally estimated	1,840	1,923	2,459	3,359	3,885	13,466
According to						
(a) the retail price index	1,305	1,195	1,321	1,480	1,478	6,779
(b) the wholesale price index	1,034	782	840	1,087	1,095	4,838

Extraordinary Taxes.

In order to meet the demands on the public finances made by these expenses, and, so far as the Government was concerned, also to cover the great expenses for military purposes and for high cost of living

[1] The Sleswig territories not included.

allowances for civil service officials, taxation legislation was subjected to frequent changes. Thereby the revenue from all taxes and duties accruing to the Treasury was raised from kr. 100,000,000 in the fiscal year 1914-1915 to kr. 575,000,000 in 1919-1920, as shown in the following table:

Treasury Revenue from Taxes and Duties.

(in million kroner)

	1914-1915	*1915-1916*	*1916-1917*	*1917-1918*	*1918-1919*	*1919-1920*	*1920-1921*
Taxes on land	6.2	6.4	6.1	7.3	9.9	11.9	13.1
Income and property taxes	20.1	24.4	38.6	62.5	72.0	91.7	282.9
Additional tax on income and property	...	...	...	3.1	22.7	33.6	14.8
Tax for the "fifth quarter"	...	...	...	...	...	25.0	2.2
Excess-income tax	...	6.1	69.6	173.7	135.5	174.9	1.7
Turnover taxes (i.e., the stock exchange tax)	12.9	18.3	38.9	39.7	65.8	52.9	37.4
Duties on consumption	54.9	60.0	66.0	71.0	83.9	170.8	174.5
Fees, perquisites, etc.	5.6	6.3	8.1	8.6	11.7	14.5	16.4
Total	99.7	121.5	227.3	365.9	401.5	575.3	543.0

Total Revenue from Taxes.

In the table below the aggregate result of taxes legislation during the War is set forth year by year. In addition to these figures, the income of the taxpayers for the corresponding year is given in column 4, so that the income during the calendar year 1914 is compared with the aggregate revenues of the Treasury and the local districts during the fiscal year 1914-1915, the income of 1915 with the revenues of 1915-1916, etc. (All sums are in million kroner.)

Income of Taxpayers.

	Nominal *1*	*According to wholesale price-index number* *2*	*Difference between columns 1 and 2* *3*	*Revenue of Treasury and local districts* *4*	*Increase since 1914* *5*	*Column 4 as a percentage of column 1* %	*Column 5 as a percentage of column 3* %
1914	976	976	0	203	0	20	..
1915	1,263	995	268	237	34	19	13
1916	1,840	1,034	806	369	166	20	21
1917	1,923	782	1,141	555	352	29	31
1918	2,459	840	1,619	635	432	26	27
1919	3,359	1,087	2,272	871	668	26	29
1920	3,885	1,095	2,790	902	699	23	25

In the last two columns of the table the revenue is calculated in percentages of the incomes of the taxpayers; it must, however, be noted that the tax revenue includes the revenue from corporation taxes, whereas the amounts of income represent only the income of the individual taxpayers less the direct personal taxes and rates paid. It will be seen that the nominal revenues in percentages of the nominal incomes, and the increase in the revenues due to war conditions and the decrease in the value of money, reach a height of 30 per cent for 1917. Thereafter there is some decline in these percentages, but on the whole it may be said that the Government and the local districts during the War seized about 25 per cent of the income of the taxpayers, both when we consider the nominal figures and the increase in revenues as compared with the increase in incomes.

Of course, taking the extreme limits, taxation reached a higher level than is indicated by the above average percentages; and these percentages are also low in comparison with the rate of taxation provided for, because the revenues have not been calculated for the year in which they were assessed, but for the subsequent year, in which incomes, on account of the steady fall of the value of the krone, were nominally higher.

5. *Finances and Prices.*

Advances Made by the National Bank.

If we consider the amount of notes available a regulating medium of credits, as the private banks must at least keep their advances within such limits as to enable them always to have the necessary amount of notes at their disposal, and this, of course, becomes easier for them, in proportion to the extent of the advances of the bank of issue (and purchases of gold and foreign moneys), it may be said that during the War it was the advances of the National Bank to the Government and to foreign banks, but not the advances to Danish business, that formed the basis of the increase in the issue of notes, and thereby of the increasing credit granted by the private banks.

Further to illustrate this, the table below shows the gold reserve of the National Bank, the amounts owing by the Government and

foreign banks to the National Bank, and the claims of the private Danish banks on the National Bank at the end of the banking years 1914-1921. (All sums are in million kroner.)

	Overdrafts by the Treasury	*Danish Government Bonds*	*Debt of foreign banks*	*Gold reserve of National Bank*	*Amount of notes in circulation*	*Amount due to private banks in current account*
July 31, 1914	...	1.9	...	78.5	156.5	7.3
1915	20.3	12.4	...	107.0	204.3	14.4
1916	16.1	21.1	40.5	161.5	245.0	71.7
1917	2.2	25.8	76.6	195.1	289.3	87.7
1918	43.6	17.6	93.3	189.8	365.3	67.7
1919	82.0	32.6	62.9	187.4	428.5	90.8
1920	28.4	36.7	79.1	227.8	541.2	14.2
1921	60.7	35.8	80.5	227.6	481.6	45.9

As shown in this table, it was the Treasury's overdrafts and the purchases of government securities by the National Bank which, coupled with the increase in reserve due to the influx of media of payment from the southern countries, brought about the increase in the amount of notes in circulation during the bank year 1914-1915. During the following bank year the advances to the foreign banks began to make themselves felt; and simultaneously with the increase of these advances the Treasury's overdrafts declined. Thus, on July 31, 1917, the amount overdrawn was only kr. 2,000,000, while advances to the foreign banks had reached kr. 77,000,000. During the bank year 1917-1918 both these advances and the overdraft increased; but the foreign banks then commenced to pay off their debt, whereas the overdraft of the Treasury again increased. The steady increase in the gold reserve was due to the aforementioned influx of foreign media of payment, which partly consisted in consignments of gold, but also to the fact that the advances to the foreign banks, in addition to being secured by bills of exchange, were also secured by gold, as appears from the following table: (All sums are in million kroner.)

Date of loan	*Amount of loan*	*Amount covered by gold*	*Amount advanced by National Bank*	*Amount advanced by private banks*	*Borrower*
December, 1915	30.0	15	30.0	...	German banks
June, 1916	20.0	10	10.0	10.0	German banks
July, 1916	30.0	..	10.0	20.0	British banks
August, 1916	30.0	..	7.5	22.5	French banks
December, 1916	20.0	10	5.0	15.0	German banks
February, 1917	30.0	10	7.5	22.5	German banks
September, 1917	40.0	30	8.0	32.0	German banks
October, 1917	4.5	..	0.9	3.6	German banks
November, 1917	30.0	..	6.0	24.0	British banks
December, 1917	22.5	10	4.5	18.0	German banks
December, 1917	6.3	..	1.3	5.0	Austrian banks
December, 1917	2.7	..	0.5	2.2	Hungarian banks
March, 1918	17.5	7.5	3.5	14.0	German banks
March, 1918	3.5	..	0.7	2.8	Austrian banks
March, 1918	1.5	..	0.3	1.2	Hungarian banks
July, 1918	10.5	4.5	2.1	8.4	German banks
Total	299.0	97.0	97.8	201.2	

The Amount of Notes Issued.

The increase in the amount of notes did not, however, coincide with the increases in loans and in the supply of gold, which amongst other things was due to the fact that the private banks, as shown in the above table, allowed increasing amounts to remain in their current accounts in the National Bank. The summary further shows that the advances to foreign banks became essentially larger during the last years of the War, particularly because the loans then were linked up with the quarterly arrangements for interchanges of goods with the Central Powers. The amount of these loans on July 31, 1918, kr. 93,300,000 was not even the maximum amount; this had been reached shortly before, with kr. 118,100,000.

When during the actual years of the War (after and including 1919,—during which year the bank greatly extended its advances,—conditions were different), the National Bank was unable to limit the amount of notes in circulation, and thereby the advances of the private banks, it could neither prevent increases in prices in the country nor force down the rates of exchange of foreign moneys.

Retail Price-Index Number for July, 1914 to 1921.

(Dept. of Statistics.)

	July, 1914	*July, 1915*	*July, 1916*	*July, 1917*	*July, 1918*	*July, 1919*	*July, 1920*	*July, 1921*
Foodstuffs	100	128	146	166	187	212	253	236
Clothes, footwear, laundry	100	110	160	190	260	310	355	248
Rent	100	100	102	105	108	113	130	141
Fuel and light	100	130	175	220	275	292	563	401
Taxes, rates, membership fees, etc.	100	100	100	100	100	162	227	301
Other expenses	100	100	121	146	197	224	247	214
Average retail price-index number	100	116	136	155	182	211	262	237

Wholesale Price-Index Number. (Danish Financial Gazette.)

	July, 1914	*July, 1915*	*July, 1916*	*July, 1917*	*July, 1918*	*July, 1919*	*July, 1920*	*July, 1921*
Foodstuffs	100	120	152	168	212	240	309	257
Other goods	100	134	194	299	359	330	429	250
Average wholesale price-index number	100	127	178	249	302	295	383	253

Total Advances Made by Banks.

Attempts have been made to illustrate the amount of the extended credits of all banks through the computation of a "credit index," as will appear from the subjoined table: (All sums are in million kroner.)

Mid-year balance	*Advances of private banks*	*Amount of notes in circulation*	*Credit Index*					
			Total	*Absolute*	*According to number of population*	*Retail price-index number*	*Wholesale price-index average for the year*	*Freight-revenue index*
	1	*2*	*3*	*4*	*5*	*6*	*7*	*8*
1914	863	156	1,019	100	100	100	100	100
1915	979	204	1,183	116	115	116	127	104
1916	1,343	245	1,588	156	153	136	178	284
1917	1,744	289	2,033	200	192	155	247	495
1918	2,337	365	2,702	265	252	182	295	994
1919	3,135	428	3,563	350	310	211	306	1,049
1920	3,523	541	4,064	399	347	262	374	920
1921	3,478	481	3,959	389	331	237	250	850

The credit index has been calculated on the basis of the loans made by the private banks and the amount of notes issued by the National Bank at the middle of the year. These amounts have been added together in the third column of the summary, in which connection due regard has been paid to the loans made to foreign countries, and used for the purchase of goods in this country as these loans appear either in the advances of the private banks or as an increase in the amount of notes in circulation, just as the foreign moneys or consignments of gold, converted into Danish kroner, also mean an increase in the amount of notes in circulation. So far as the private banks are concerned, the advances to other banks are not—where this has been possible—included in the amount of advances. It will further be noted that the increases in loans during the first years of the War were less than the increase in the wholesale price-index number, while the regulation of prices, etc., kept the retail price-index number below the credit-index number. After the end of the War—in 1919—the increase in advances becomes greater than the increase in prices—apart from the year 1920 with its enormous coal prices. It also seems to appear from these columns of figures that during the actual war years it was the increase in prices abroad which caused the increase in loans by the banks; and that not till after the end of the War did banking policy become the prime mover in the increase of prices.

The Rates of Exchange.

When on the other hand, the rates of exchange on foreign moneys, despite the extension of credits, were steadily declining throughout the war years, this was (as previously mentioned) due to the large amounts of foreign media of payment, which freight earnings, interchanges of goods with foreign countries, and the flight of capital from the belligerent nations brought to the Danish market. The increase of the amounts due to us from foreign countries from 1914 to 1918, about kr. 575,000,000—see table below—was, as mentioned, in so far as some kr. 300,000,000 was concerned, due to the advances made to foreign banks; the remaining kr. 275,000,000 was the amount which Danish banks had collected in foreign media of payment, and must seem to be very considerable. It also gives a clear idea of the financial loss suffered by the country when it is borne in mind that the British prices for the agricultural products

ruled lower than the German, if we suppose that the same prices *could* have been obtained in Great Britain as in Germany, and compare the total at which we thereby arrive with the kr. 275,000,000, because in this hypothetical case pork would have brought about kr. 235,000,000 more, butter about kr. 80,000,000, and eggs about kr. 10,000,000 more, in all about kr. 325,000,000, or a total of about £20,000,000, at the then prevailing rates of exchange; in other words, the amount which the Danish banks in that case could have absorbed would have been more than doubled. (All sums in million kroner.)

		The National Bank			
At the end of	*Amounts owing to private banks by foreign countries (in foreign moneys)*	*Owing by agents abroad, and drafts on for. countries in foreign moneys*	*Gold in coin and bullion in foreign moneys*	*Total foreign accounts of all banks in Danish kroner*	*Total accounts owing*
1913	44	31	73	— abt. 75	73
1914	79	40	91	— abt. 65	145
1915	87	40	111	— abt. 50	188
1916	163	52	160	— 59	316
1917	113	55	174	114	456
1918	292	128	195	36	651
1919	173	70	227	—239	231
1920	138	46	228	—228	184
1921	74	52	228	—196	158
1922	21	9	228	—178	80

In order further to illustrate the shiftings in value of foreign moneys on the Danish market, the rates of exchange of sterling and the dollar are shown in the table below, together with the British and American price-index numbers. In the last columns of the summary are calculated the gold value of the Danish krone according to the price of sterling, the home value of the krone according to the retail price-index number, and its par purchasing power as compared with the dollar in proportion to the Danish and American retail price-index numbers. It will be noted that the wholesale price level, espe-

cially on account of the great increase in freights, was higher in this country than in the United States and Great Britain. Furthermore, the par purchasing power was higher during the War than the rates of the dollar quoted in this country, which was due to the above-mentioned influx of foreign media of payment and to the difficulty incidental to the conversion of these media into goods. During a period of free interchange of goods, such a difference between the theoretical and the actual value of the dollar could not have been maintained for any length of time.

Average for the year	*Rate of sterling exchange*	*Rate of dollar exchange*	*The* Economist's *price-index number*	*Bureau of Labor's price-index number*	*Gold value*	*Intrinsic value*	*The Danish Krone Par purchasing power as compared with the dollar*
1913	18.16	3.73	100	100	100	100	3.73
1914	18.35	3.77	99	98	99	100	...
1915	18.56	3.96	123	101	94	86	4.69
1916	16.95	3.61	160	127	104	74	5.23
1917	16.24	3.45	204	177	108	65	5.21
1918	15.73	3.33	225	194	112	55	5.67
1919	18.89	4.20	235	206	89	47	5.54
1920	22.94	6.15	283	226	61	38	6.17
1921	21.45	5.69	185	150	66	42	6.22

The Balance of Trade.

The following summary indicates the nominal amount of the value of the interchange of goods with foreign countries, and the gross freights earned by the Danish merchant marine employed in foreign trade. Even if we consider the fact that perhaps between one-half and two-thirds of all freight earnings were used to pay for coal, wages to foreign seamen, duties, stores taken aboard in foreign ports, etc., there still remains a surplus which by far exceeds the excess imports. These excess imports were, by the way, exceedingly low on account of shiftings in prices and quantities, which have been further accounted for in the last columns of the summary: (All sums in million kroner.)

Foreign Trade and Freight Earnings.

Year	*Imports*	*Exports*	*Excess imports*	*Gross freights*	*Price-index number for imports*	*Import-quantity index*	*Price-index number for exports*	*Export-quantity index*
	1	*2*	*3*	*4*	*5*	*6*	*7*	*8*
1913	855	721	134	119	95	100	95	100
1914	795	867	—72	102	100	88	100	114
1915	1,157	1,129	28	234	128	100	146	102
1916	1,357	1,309	48	395	176	86	191	90
1917	1,089	1,066	23	465	264	46	195	72
1918	946	758	188	563	318	33	299	33
1919	2,605	1,008	1,597	565	325	89	311	43
1920	3,243	1,962	1,281	553	411	88	311	83
1921	1,697	1,564	133	205	211	89	233	88
1922	1,552	1,283	269	190	158	109	175	97

In the last columns, index numbers for the quantities imported and exported have been calculated in this way: the values of imports and exports have been divided by the price-index number given in columns 5 and 7, respectively, whereby two columns of figures giving the quantities are obtained. These quantity numbers have again been brought into proportion to the corresponding numbers for 1913, and the percentage figures thus obtained give the quantity-index number of imports and exports.

The decrease in the available quantities of goods for which we have previously accounted, and which also appears in columns 6 and 8 of the above summary, would naturally have the result that the demand resulting from the increasing amount of credits would turn to the stock market to an increasing extent.

Prices of Bonds and Stocks.

Stock and Bond Index. (July 1, 1914 = 100.)

Banks	*1915*	*1916*	*1917*	*1918*	*1919*	*1920*	*1921*
January	124	143	153	152	180	155	139
April	124	132	145	158	174	145	133
July	129	157	145	179	181	145	130
October	134	163	151	186	166	138	129
Steamship companies							
January	132	261	533	489	463	448	308
April	151	347	444	555	424	378	224
July	205	520	462	548	451	367	169
October	263	632	625	517	428	338	150

	1915	*1916*	*1917*	*1918*	*1919*	*1920*	*1921*
Industrial companies							
January	135	177	278	244	248	172	119
April	154	182	236	276	219	156	117
July	165	249	209	321	234	144	105
October	167	333	211	287	192	132	99
Index of shares[1]	120	187	183	211	183	151	111
Index of bonds[1]	96	96	97	96	95	83	89

Conclusion.

The decline in supplies and production, and considerations of foreign politics which unavoidably decided trade conditions and the distribution of goods between foreign countries and the domestic market, made it equally impossible to leave the distribution of goods which were then available for the domestic market to free competitive trade, but meant that the Government had, to a great extent, to take this distribution in hand. This was, in this country as in other countries, necessary for the preservation of peace and order in the community; and there was no disagreement as to it in responsible quarters. But of all the unforeseen events of the War, perhaps the most curious was, that when hard necessity had ceased to depress the business world, the persons who desired to bring the economic government management of the years of war to conform with normal conditions, were unable to do anything to keep business from returning to conditions of free competition, despite all that could be said, and was said, regarding the importance of such an "economic scheme" for production and distribution.

But if economic progress and the attainment of the most favorable economic conditions for all classes is conditional upon the individual being allowed the greatest possible liberty to use his strength and abilities, and if the community in no other way can replace this motivating force, it would seem that one of the chief tasks of financial policy will be to combine the economic liberty of the individual and the liberty to form economic combinations in such a manner that the common weal does not suffer thereby. And in the solution of this problem it may possibly be that some experience derived from economic conditions in the years of war may be turned to account.

[1] From the Yearbook of Statistics.

IV

ICELAND AND THE WAR

BY THORSTEINN THORSTEINSSON

ICELAND AND THE WAR

CHAPTER I

THE COUNTRY AND THE PEOPLE

Iceland, in the Northern Atlantic, and close to the Arctic Circle, is far away from Europe. Next to Great Britain it is Europe's largest island. And, with an area of 103,000 square kilometers, and a population of about 100,000, it forms an independent political community, though one of the smallest in the world.

It is of volcanic origin, and even in the present day the volcanic forces are still active. About 11 per cent of the surface of the country is covered by lava, and numbers of hot springs are found all over the country. On the other hand large plateaus in the interior—forming in all more than 13 per cent of Iceland's total area—are covered by perennial snow. With its combination of these strange contrasts this country of "frost and fire" is almost unique. As for the climate, it is much milder than might be expected considering the position of the island. This is due to the fact that its shores are washed by the warm waters of the Gulf Stream.

Most of the country is uninhabited, and to a great extent uninhabitable. The whole interior is composed of highlands from which mountain chains work down in all directions to the coast. It consists mostly of glaciers and rocky deserts, lava fields, and heaths. But rather good pastures are found here and there, and sheep are driven up to the highlands in the spring, and find food for themselves all through the summer.

The land is fertile, but on account of Iceland's northerly situation, with its short summers, its long winters, and its marked insular climate, there is much sameness in its vegetation. Grasses are predominant; and at the same time, they are richer in growth than in southern countries, and afford excellent grazing. Icelandic agriculture is based on this fact, and consists solely in the cultivation of grassland, for the raising of cattle, sheep, and horses. It is the chief industry of the country, and supports about 40 per cent of its people. Second in importance is fishing, as the waters surrounding Iceland are extremely rich in fish. Some of the best fishing banks in the world are found there. The fisheries play an ever increasing part in the economy of the country and about one-fifth of the population find

employment in them. Manufacturing industries have not hitherto been very important, but they are constantly becoming more so; and in 1920 another 12 per cent of the population made their living by them. They are largely represented by handicrafts, but, in recent years some larger enterprises have been founded. Indeed it is very possible that the country will become an industrial country in the future, for in its rivers and cataracts it possesses enormous forces, the total of which is estimated at 4,000,000 horse power. Commerce and trade with other countries are also fast developing; in 1920 they supported 13 per cent of the population. And, latterly, the Icelanders have more and more been taking their foreign trade and shipping into their own hands.

Iceland was colonized at the end of the ninth and the beginning of the tenth centuries. Most of the settlers were Norsemen, though some came from other countries, especially from Ireland and the Hebrides. In the year 930 it was organized as a republic with the establishment of the Althing, a legislative assembly which at the same time acted as a court of justice. With the exception of a short period in the nineteenth century, and in spite of all other changes the Althing has lived on as the heart and center of the Icelandic constitution, and will soon be able to celebrate its thousandth jubilee. The Republic suffered from one defect; with the Althing, there was no central executive authority or government to keep antagonistic chiefs in check. The result was internal conflicts; and, in 1262, Iceland submitted to the overlordship of the King of Norway. Then, in 1380, both Iceland and Norway came under the sway of the King of Denmark. Gradually Iceland's constitution underwent considerable changes, and more and more it lost its independence. The legislative powers of the Althing became ever more limited and in time came to an end. When Norway, by the treaty of Kiel, in 1814, was separated from Denmark, Iceland remained under Danish rule. In 1845 the Althing, which had been abolished in 1800, was reëstablished as an advisory assembly. In 1874, in which year the 1,000 years' jubilee of the first colonization of the country was celebrated, the Althing obtained the right to exercise legislative authority over the country's home affairs, including its finances. In 1904 the seat of the Government was removed from Denmark to Iceland, the minister for Iceland established his residence in the capital, Rey-

kjavik, and at length, in 1918, Iceland obtained complete independence and, as the outcome of negotiations between Iceland and Denmark, was acknowledged as a sovereign state by the Act of Union of November 30, 1918.

The Icelandic Free State, a political organization that in several respects was original, was the home of a literature which in importance was second to no other of its time. The Icelandic Sagas, the Edda poems, etc., are everywhere given a place among the classics of world literature. It is Iceland's literature indeed that, more than anything else, has made its name known far and wide and has maintained the self-respect of the little nation. The language in which its great literature was written still lives among the people, a reason why every Icelander can still easily read it. And the fact that the knowledge of that literature has not been limited only to the learned few, but has always to a great extent been the possession of the people, has preserved the uniformity and the continuity of the language. Iceland's literature has remained a living thing; through all the centuries and down to the very present, for Iceland's people it has been a deep and personal interest.

In the last generation great progress has been made in material culture. When in 1874 Iceland took over the management of her finances the country was quite undeveloped economically. Both agriculture and fishing were carried on in old-fashioned ways. No large boats existed. The roads were simply bridle paths. There were no bridges over the numerous streams, excepting a few small wooden ones. No lighthouses lit the coasts; there were only natural harbors. Of public buildings there were few. There was scarcely any connection with the world outside save in the summer time. But very marked changes have taken place since then. Great improvements have been made. A large, modern and well-equipped fishing fleet has come into existence, consisting of steam trawlers, motor boats, and a number of trading steamers. Over fifty large lighthouses have been built, not counting smaller ones. A modern harbor has been constructed at Reykjavik, and in many ports there are piers for large ships. Vessels call all the year round, and at brief intervals. Two-thirds of the main roads have been made practicable for vehicles, and many by-roads. Numerous bridges have been built over the largest rivers; most of them are of concrete, while some, such as suspension bridges, are

of iron. Cable connection with the outside world was established in 1906; and since then most of the settlements in the country have been linked together by telephone.

By the Act of Union Iceland is united with Denmark under a joint king. The treaty which incorporates the Act provides that the subjects of both countries shall possess equal rights in both; also that Denmark shall have charge of Iceland's foreign affairs and, to a certain extent, the inspection of her fisheries. But, while the union under a single king is presumed to be permanent, at any time after 1940 either country may give notice that the above Act of Union is at an end.

CHAPTER II

SHIPPING, COMMERCE, AND IMPORTS

In the beginning, the War meant no essential interruption in Iceland's trade. The regular services between Denmark and Iceland, and between Norway and Iceland were maintained, though often its vessels were held up by English warships, and sometimes brought into English ports for closer examination, where they were detained for several days; indeed sometimes they were stopped and brought in a second time.

Early in August, 1915, Great Britain gave notice through the British Consul at Reykjavik that all ships leaving Iceland for foreign ports must call at a British port when outward bound, that the omission to do so might mean an export prohibition on British coal for Iceland, or even that Icelandic ships might be excluded from bunker privileges. But the Government of Iceland felt itself under obligation both to publish this note and to urge that it be acted upon. But, until the end of 1916 the War caused no real reduction in Icelandic trade and sailings. Then, on February 1, 1917, the Germans announced that they intended to wage unrestricted submarine war; they threatened to sink any vessel that was found in the neighborhood of Great Britain; and, for the time, all trade between Iceland and the outside world was brought to an end. The steamships that sailed between Denmark and Iceland, three of which were at that time in Copenhagen, had to stay where they were on account of the English demand that they call at a British port; for they would not attempt to break the German blockade to have their cargoes examined by the English. A permission was at length obtained from the British Government for the said steamships to proceed to Iceland direct and without call. But when they arrived, toward the middle of April, there had been no shipping connection between Iceland and the Scandinavian countries for almost three months. On account of these difficulties, in 1917 the number of vessels calling at Iceland from ports abroad fell to two-fifths of what it had been in the preceding year, and the tonnage dropped to less than half.

At the beginning of the War, when it was feared that connections with Europe would be interrupted, the Icelandic Government sent a

ship to the United States for a cargo of the most necessary supplies. This connection was maintained during the years that followed. Imports to Iceland from the United States rose from a little over kr. 500,000 in 1914, to about kr. 3,000,000 in 1916. And when trade with the Scandinavian countries was interrupted in 1917 an attempt was made to increase imports from the States. The Government already had one freighter on that route and now chartered another. But in obtaining goods for export, many difficulties were encountered, for the United States now expected at any moment itself to enter the conflict. Both ships, however, were loaded and ready to depart in the beginning of April, when just at that juncture America did enter the War. The ships were not cleared but were detained for six weeks. It was only late in May that they were finally allowed to sail. Owing to this delay very heavy expenses were incurred and the goods they brought to Iceland thus became extremely dear; but worse still, the cargo of petroleum, carried by one of these vessels, did not arrive till at the end of the fishing season, and a number of motor boats had been unable to go out for want of it. Many sailings were now made to the United States, but ships often had to wait long to be cleared from New York, and the fact that, coming as well as going, they had to call at Halifax for examination also caused long delays. It was not till late in 1918 that they were released from this obligation.

On account of the submarine peril, the greatest difficulty was experienced in getting coal and salt from Great Britain; and there was a great scarcity of these things in the spring of 1917, both for trawlers and steamships in general. The Government chartered four ships to trade to England; but during July three of them were sunk by submarines. At the same time a Norwegian liner in the Norway-Iceland service was destroyed in British waters. With that all regular steam service between Norway and Iceland ceased. At the same time several Icelandic ships were sunk, and others which, though under charter, had not completed their first voyage to Iceland. During the summer, others, freighters bringing salt and coal from England, were also sent to the bottom.

All mail from Iceland had to go by way of England. The ships sent to the United States were, in the beginning, not allowed to carry mail, and afterward they were allowed to only on the condition that such

mail be examined at Halifax. On account of these restrictions the postal service dropped to almost nothing.

Early in 1918 passenger sailings between Denmark and Iceland were resumed, at first with but one ship, but after the conclusion of peace in 1919 several boats were put on the route, and sailings between Norway and Iceland also began again. Sailings to the United States did not stop at once but decreased considerably, and during the years that followed almost came to an end as, gradually, shipping again fell back into old channels.

In the years before the War, Iceland's exports had been carried almost exclusively by foreign ships, and the same was true in part of her coastwise trade. But in 1913 a movement was set going for the establishment of an Icelandic steamship company. It was felt that national feeling called for it; to interest as many as possible, the par value of shares was made very low. The appeal met with much response too, not only in Iceland but among Icelanders in America. The company was founded in January, 1914, and placed orders for two vessels in Denmark. They were both still under construction when the War broke out; and, accordingly, delivery was somewhat delayed. However, they began running in the spring of 1915.

When the Government, during the first years of the War began actively to concern itself with the country's lack of needed commodities, ships were chartered to import them. And, in 1917, the Government purchased three steamships, one of them exclusively for the coastwise trade. These ships were very dear, and the result of this experiment in government ownership was, taken as a whole, a loss.

The greatest obstacle in the way of importing was, at first, the chartering of freighters. And as it was feared that trade connections could not be maintained in the long run, the country simply tried to procure as great a quantity of supplies as possible and at the earliest. The consequence was that imports, in spite of all difficulties, decreased very little in quantity during the first years of war, and in 1916 they even rose considerably. Exports also rose, but the increase, as represented in money, was largely accounted for by a very great rise in the price of export articles.

In the autumn of 1914 England sent a consular agent to Reykjavik to observe and report on Icelandic trade. But even at the

outbreak of the War England was completely in control of cable connections between Iceland and Denmark as they went via Scotland. Messages in code were prohibited, and messages in languages other than English and French were not forwarded at all.

Icelandic products, bound for Denmark, were sometimes seized, as the English feared they might be reforwarded to Germany, and at the end of March, 1916, Great Britain gave notice to Iceland that in the future it would halt all shipments from Iceland to the Scandinavian countries and to Holland. At the same time a ship carrying salt from Spain to Iceland was detained, when calling at a British port, until the owners of the cargo had signed a declaration to the effect that no part of it would be reforwarded to enemies of Great Britain, or to the Scandinavian countries, or to Holland, and that products in which the salt was to be used would be exported only to countries approved of by the British Consul at Reykjavik. All persons receiving coal, salt, or the materials for fish packing from Great Britain were to sign a similar declaration; and this grew in time to include all coal, salt, or packing materials that the person signing the declaration had already received, or in the future might receive. Under these circumstances exporting to the Scandinavian countries—and hitherto they had taken almost half the total—practically ceased. It became, moreover, a matter of great difficulty to obtain export licenses for certain articles of necessity from Great Britain, notably fishing tackle. The Icelandic Government, therefore, sought to make some agreement with Great Britain that would cover foreign trade; and in June such an arrangement was arrived at under which Great Britain was to permit export to Iceland of the necessary supplies and only to prevent exporting from Iceland to enemy countries and to Norway, Sweden, Denmark, and Holland. Also, if no market could be found for Icelandic products except in the said countries, Great Britain was to buy the goods in question at a price fixed in the agreement, which, provisionally, was to be valid till the close of 1916. At the end of July the Government, therefore, issued a prohibition against loading ships in Icelandic ports with Icelandic products destined for the enemies of Great Britain, the Scandinavian countries and Holland unless England had previously had the refusal of such goods.

In the beginning of 1917 a new agreement was concluded on the same lines as that of the preceding year. This agreement was in force

till the close of the year. New negotiations were, however, not entered upon before March, 1918. Until the making of the new treaty there were scarcely any sailings between Great Britain and Iceland, which made great difficulties in the matter of Icelandic imports. In particular there was a great scarcity of salt for the fishing fleet as several salt ships, bound for Iceland, were detained by Great Britain, some of them for months. During the two preceding years negotiations had been carried on with England alone; but this time they took place with the representatives of England, France, Italy, and the United States. The treaty that was signed in May, after two months of deliberating, was indeed more far-reaching than those before it, as it covered not only Iceland's exports but also her imports. She guaranteed to offer to the representative of the Allies in Iceland all Icelandic produce (with a few exceptions) that was not to be used in the country itself. The Allied Powers on their part promised to further the import to Iceland of articles of necessity; and the treaty further stipulated that Iceland was to receive certain rations of the most important things.

As a result of the treaty two committees were formed, for imports and exports. A prohibition was laid upon all importing done without the permission of the Import Committee; and it was made obligatory upon all producers and merchants to offer the Export Committee their entire stocks of the most important export commodities. If the owners were not willing to sell the goods at the prices fixed, the said goods were to be forcibly seized. Although there was much dissatisfaction with the prices that were paid under the agreement, it was submitted to and almost all the commodities in question were sold voluntarily. The agreement was to be in force from May 1, 1918, till May 1, 1919, but at the end of 1918 the Allied Powers no longer demanded that there be rationing of imports to Iceland. In January, 1919, both the Import and the Export Committees were abolished. Imports were freed with the exception of goods imported by the Government itself, and after July, 1919, almost everything was made free of export.

In the course of 1919 shipping connections with foreign countries were once more becoming regular. In July, 1919, the British cable censorship was ended. Commerce gradually returned to pre-war conditions. Trade with the United States and Great Britain which, for the final years of war, had been of an extraordinary importance now

fell off, and dropped in a few years to the normal of pre-war time. On the other hand Denmark, which before the War had been the chief buyer of Icelandic exports did not regain its old position; but was replaced by Spain, which now takes the bulk of Iceland's most important article of export, cured fish. Spain was not among the countries that Great Britain sought, by commercial treaties, to cut off from Iceland's exports. Trade with Spain was, therefore, not only maintained but on the increase all through the War, and since the War Spain's share in Icelandic exports has risen considerably.

Under the growing restrictions introduced by the belligerent powers the Government was obliged to take over a great part of Iceland's foreign trade; and on May 1, 1917, it was put into the hands of a special bureau called "the Government Stores." After that the turnover greatly increased. In the entire period from the beginning of the War till the end of April, 1917, sales had amounted only to a total of kr. 3,100,000; from then till the end of 1917 they were kr. 7,500,000. And they rose to kr. 16,300,000 in 1918, and to kr. 20,800,000 in 1919. When war conditions were over and the restrictions introduced, during and on account of the War, had gradually been abolished, trading activities were very much reduced, and in 1921, the turnover fell to kr. 8,200,000. Thereafter the Government Stores practically ceased to deal in many articles of necessity, but they continued to carry on a trade in certain things, such as petroleum and tobacco. In 1921 a monopoly of tobacco imports was established, though only for financial reasons; and in due course tobacco became the chief article of sale in the Government Stores; but, as said, they did some trade in petroleum as well. In 1923 they were, in fact, given a monopoly of petroleum importing. It remained in force, with the tobacco monopoly, till the end of 1925, when both were abolished.

The scarcity of goods that was feared at the outbreak of the War did not develop until after the declaration of unrestricted submarine war at the beginning of 1917. During that year imports fell to three-fourths of what they had been in 1914, and in 1918 even to about three-fifths. In the case of some staples the decrease was even more. Thus imports of coal in 1917 totaled only 19,000 tons as compared with 113,000 in 1914. The Government took various steps to relieve the scarcity of necessities. In February, 1917, it decided that with rye flour, for bread, a fourth part of corn meal must be mixed, and

the bakers were no longer allowed to make cakes. In April of the same year the Government further decided to take over all the wheat and margarine that were imported thereafter. And in that connection the authorities soon resolved that committees must be formed in all municipalities to supervise and ensure a fair and practical division, according to public needs, of the commodities to be sold by the Government. Afterward other things, petroleum for instance, were put under the authority of these committees. In some places the goods in question were rationed and distributed only on the presentation of cards. When, in the course of 1917, food imports were increasing, the restrictions were somewhat relaxed, and gradually they were abolished.

At the beginning of 1918 and until the agreement with the Allied Powers was signed, marked difficulties once more arose in the case of imports. By the agreement the importing of several things was ratified. Then by an ordinance of January 23, 1918, a prohibition was laid on the selling of wheat, bread, and sugar after March 1 of that year, except on the presentation of ration cards. This rationing system was maintained for upward of one year, or until May 1, 1919.

In the autumn of 1920 the rationing of wheat and sugar by means of cards was again enjoined; and it was to start at the beginning of 1921. But this time it was introduced not because of the lack of essentials but as a means of decreasing consumption, and in that way contributing to an improvement in the country's trade balance by a forced reduction of imports. Yet it was a measure that could have counted for little, for it was abolished in three months. On the whole, it must probably be admitted that public rationing can scarcely have been of any real importance. The experiments were, in fact, too short-lived and the rationed quantities were made too generous.

CHAPTER III

PRICES AND THE REGULATION OF PRICES

Immediately after the outbreak of the Great War there made itself felt a considerable rise in the prices of all imported goods. As we have index calculations of retail prices and the cost of living only for the capital, we must confine ourselves to these. But we find that by October, 1914, the index of the cost of living had risen to 108, and then, rising more and more rapidly with each succeeding year, it was 123 in the autumn of 1915, and 155 in the autumn of 1916. After the outbreak of unrestricted submarine war it rose to 248 in the autumn of 1917, and during the final war year it rose still higher, to 333. After the armistice we find a temporary halt in the increase of prices, even a slight decrease, and a downward movement was generally expected. But in the autumn of 1919, on the contrary another violent rise set in, and continued till the autumn of 1920 when the index of the cost of living culminated at 446, that is to say, it was now about four and a half times the pre-war figure. Then a violent fall began. The index dropped to 331 in the autumn of 1921. The fall continued through the two years that followed, interrupted by a temporary rise in 1924. By the autumn of 1927 the index had dropped to 228.

In the beginning foodstuffs—though almost exclusively imported foodstuffs—stood first in price increases. But by 1915 the increase had become greatest in fuel and lighting materials, a condition due especially to the price of coal. In 1916 the latter had increased twice or three times, and in 1917, when the submarines had torpedoed one freighter after another the price of coal rose enormously. In the autumn of 1917 it was ten times higher, and in 1918 even more than eleven times higher. After the War, it first decreased considerably. Then in 1920 it again rose violently on account of the coal strike in England. In the autumn it was nine times as high as before the War. Then, very suddenly it fell again.

By the autumn of 1914 attempts were made by the Government to check the rise in prices. A Price Regulating Committee was established with authority, where it seemed necessary, to fix maximum prices for commodities. It did fix such prices for certain things in a few places in the country; but no maximum prices were put on goods

in the capital until December, 1915; and in the autumn of 1916 the Price Regulating Committee abandoned its task on account of a disagreement with the Government.

After the declaration of unrestricted submarine war, and the interruption of the shipping trade caused by it, another Price Regulating Committee was established. It, however, soon decided that, owing to the impossibility of estimating transport costs, it would be impossible to fix prices for imported goods. It, therefore, gave its attention almost exclusively to the home market, and maximum prices were fixed for certain domestic commodities. But in 1919 it was the general opinion that the fall in prices had begun and the new Price Regulating Committee was no longer thought necessary.

When prices once more rose violently at the close of 1919, and in the course of 1920, in September a third Price Regulating Committee was established. It developed considerable activity and fixed maximum prices for a number of things. But its activity was only short-lived as the fall in prices in the meantime had begun and with that the need for it was gone. In April, 1921, therefore, it was dissolved in its turn.

As the most important building materials, timber, cement, iron, etc., had to be imported, war conditions caused a considerable rise in the price of these staples, which again made building much dearer, even though the increase in wages throughout the War was much less. In 1915 the cost of building was supposed to have risen only 13 per cent above the level of 1914; but in 1916 there was a violent rise, and in 1917 the cost of building had more than doubled. Then a further increase culminated in 1920, when the index number was five times what it had been in pre-war times. But the fall began then.

Though the rise in building costs was not particularly great during the first part of the War it still caused a considerable decrease in building. All through the War the building done amounted to little more than half of what had been done during similar pre-war periods. The consequence was a scarcity of dwelling houses, particularly in the capital, where the increase of population was greatest. In the spring and summer of 1916 homeless families in Reykjavik had to be housed in the schools. The municipality had huts built for twenty families in the course of the summer, to relieve the worst distress. And during the two last years of the War the same policy was followed.

At the end of the War, instead of the expected fall in prices there was a violent rise, but after 1920 the cost of building slowly dropped, and in 1927 it was one and three-quarter times higher than before the War. In these years much building was done, much more than before the War. But as the increase in the population of Reykjavik had, during these years, been so exceedingly great, rising from 13,771 in 1914 to 23,224 in 1926, a growth of 69 per cent in twelve years, and as the building done during the War had been so inadequate, what has been done since has not been sufficient to relieve the scarcity of dwellings until almost the present time.[1]

During the first part of the War there was scarcely any increase in rents, and all through the war period rent increases were much less than those in other fields. When the cost of building culminated in 1920 the average rise in the rents was much less; but when, later on, the cost of building was falling, rents continued to rise until, during recent years, they have reached the level of the cost of building, or have even gone beyond it.

In 1915 a few municipalities proceeded to take measures to relieve the high cost of living, but no such measures were taken by the Government until 1917 when price increases became more violent than before. The price of coal showed by far the greatest increase; in the course of the year it reached a height four times what it had been at the beginning of the year. By an act passed in 1917 the Government, therefore, was authorized to sell coal to municipalities in quantities corresponding to one-third of the estimated winter consumption, and at prices considerably lower than those generally ruling. The municipalities were then to sell at cost to those most in need of help, and were free to vary prices according to the circumstances of the purchasers. The Government was further authorized to grant loans to municipalities to prevent distress, and to provide work by the speeding up of public undertakings. After the lapse of a year the above act was completely rewritten. The sale of coal at low prices ceased, and grants to municipalities were now made contingent on the sacrifices they were willing to make themselves. The act, however, was of no real importance. It was to be valid till September 1, 1919; and as it was not renewed then it automatically became null and void.

[1] 1927.

The enormous rise in the price of coal caused people to turn their attention to home sources for fuel. Before the War about 250,000 horseloads of peat were dug yearly, but during the war years peat production was considerably increased; and in 1918 it reached maximum figures, with 577,000 horseloads. It then fell again, though slowly, and only by 1925 had it dropped to 300,000 horseloads.

Some attempts were also made to mine Icelandic coal, or lignite, in certain parts of the country, but not very successfully. The state bought a lignite mine in 1917 and worked it through 1917 and 1918 at a considerable loss. When the price of coal again began to fall, the operation of the above mine wholly ceased.

CHAPTER IV

WAGES

While the rise in the price of goods set in at once in the autumn of 1914 there was no perceptible increase in wages till the spring of 1915. Then, too, the increase was much less than the increase in the price of general commodities. The pay that was 35 aurar an hour for unskilled workmen in Reykjavik when war began, was first raised to 40 aurar in the spring of 1915, and then to 45 aurar in the spring of 1916. In some trades there was no rise in wages till 1916. During the first war years real wages were thus decreasing; but on the other hand there was plenty of work for all, and chances to supplement earnings by extra work. In the fisheries, where wages consisted wholly or part in a share in the catch, they rose with the rise in the price of fish products. From 1917 the increase in general wages was more rapid, and continued till the rise in prices culminated in 1920 or even a little later. But the rise in wages always lagged behind the rise in prices, and only reached its level when the latter had begun to decline. The pay per hour for laborers in Reykjavik gradually reached kr. 1.48 in the autumn of 1920, or about four and a half times what it had been before the War. The wages of certain skilled workers, like printers, rose to even five times the former level.

Before the outbreak of the War there was almost no labor movement in Iceland. But in 1916 a League of Labor Unions was formed, and began to work in close connection with the recently established Socialistic Party, which for the first time and in the same year were able to elect a representative to the Althing. The League was made up in part of unions of skilled and unskilled laborers, and in part of political societies. On the other hand a Union of Icelandic Trawler Owners was established in 1916, the most important of combinations of employers. As yet employers in general have no all-embracing association.

CHAPTER V

BANKS AND MONEY

In Iceland no bank existed until 1886 when the National Bank of Iceland was established. It was a state bank, to which, at a very low interest, the Government allotted irredeemable treasury notes. In 1904 another bank, the Bank of Iceland was established. It was a joint-stock bank, the stock of which was mostly in Danish hands. It was given the privilege, for thirty years, of issuing redeemable bank notes to an amount not exceeding kr. 2,500,000 beyond the kr. 750,000 which the National Bank had in circulation for the Treasury.

In the first days after the outbreak of the War much larger sums than usual were withdrawn from the banks, and a great number of notes were also presented for redemption. As it was feared that the movement would increase, an act was hastily passed by the Althing, freeing the Bank of Iceland, temporarily, from its obligation to pay gold. This temporary release was later prolonged, and in 1919 there was added to it a prohibition of all gold exports. These provisions are still in force, as the Icelandic króna still remains below par.

After the outbreak of the War, when more currency was demanded because of the rise in prices, permission was given by a provisional act, passed on November 30, 1914, to increase the issue of notes beyond the fixed maximum limit by an amount not exceeding kr. 500,000, on certain conditions. Later, permission was given for further issues of notes. Then, in 1916, the maximum limit was abolished and the Government was authorized to allow any increase called for by the general demand; and, all through the War it continued. But the increase in note circulation was not, however, as great as the increase in prices. Rising from kr. 2,400,000 at the close of 1913 the total (inclusive of the kr. 750,000 for the Treasury) reached kr. 7,100,000 at the end of 1918. But after the War, or in 1919, the amount of issue expanded greatly, and at the end of the year reached kr. 9,400,000; with that too, it had overtaken the rise in prices. But after 1920, it again began to grow less.

During the War both bank statements showed very high profits. This was especially true of the Bank of Iceland. It developed, how-

ever, that these great bank profits were not real, that, in the final years of the War, much of the trade of the country was being carried on at a loss; and that in the end the banks would have to suffer from it. As the Bank of Iceland was the one most deeply committed, both through commerce and the fisheries, it was the first to react. In 1920 it experienced considerable difficulty in transferring money to other countries, as its bank connection in Denmark failed it when it came to granting credits. It was, indeed, generally agreed that it would be to the interest of the country to tide the bank over its troubles, but as there was great hostility to it, and it was pointed out that this bank enjoyed the right of note issue, the stock of which was chiefly held by foreign hands, the occasion was used to make it surrender this right before the date of its expiry. In 1921 the Government made a loan of £500,000 in England, more than half of which was left in the Bank of Iceland while the remainder was divided between the National Bank and the Treasury. With regard to the issue of notes it was decided that the notes of the Bank of Iceland were to be retired according to a certain yearly ratio, until the privilege expired, in 1933. In 1924 the Government began to issue notes through the National Bank to take the place of those retired by the Bank of Iceland; and at the close of the year the total circulation of notes amounted to kr. 9,000,000. During the last half of 1925 the issue of state notes was further increased, and at the year end the total of notes was kr. 9,500,000. But in 1926 there was such a reduction that the total at the end of 1926 amounted only to kr. 7,300,000.

A final settlement of the question of the note issue was at length arrived at in 1927. By Act of May 31, 1927, it was provided that until the expiration of the concession of the Bank of Iceland, its right of issue was, step by step, as it was surrendered, to be taken over by the National Bank, and in the end the National Bank was to become the only bank of issue in Iceland.

In spite of the fact that Iceland constituted a distinct economic unit by reason of its autonomous financial legislation, all through the War and for some time after it, the Icelandic króna was, officially, held to be equal in value to the Danish krone, and it followed all its fluctuations. During the first years of the War, it fell below par as compared with gold (or the dollar) but after that it remained above par till the end of 1918, when it began to fall heavily until it reached its lowest point in the autumn of 1920. It had then lost half

its value. It was not indeed realized that there was an independent Icelandic króna. No Icelandic money had been coined; and Danish currency was used and in free circulation in the country. In general opinion the Danish krone was the standard in the country considering that Denmark's currency was in use.

During the War it was not difficult to maintain the parity between Danish kroner and Icelandic krónur. But after the end of the War circumstances altered. It was felt that the time had come for the carrying out of business developments, and the building of new business plants that had had to wait during the War. In 1919 the prices of export goods rose and exports were very large. But much was sent on consignment, and as the demand for Icelandic products declined large quantities lay unsold at points abroad, at the end of the year. This condition was a source of much trouble for the Bank of Iceland, which had largely been financing the export trade; and, at the same time, the demand for foreign money was very great because of an expansion of the fishing fleet that had been planned. In the course of 1920 it became very difficult for the banks to satisfy this demand. It is true that the Danish krone continued its decline, but the consequent rise in foreign exchanges was not sufficient to check the demand for foreign money, that is, a demand chiefly for Danish currency. It was, therefore, necessary either to put the price of the Icelandic króna below that of the Danish, or to ration foreign currency. Since it was held to be merely a question of temporary difficulties, which it was important for the banks to overcome, the latter alternative was chosen. Furthermore, people objected to any thought that Iceland's currency, which had always been as good as Denmark's had become inferior to it.

To make a rationing of currency possible a board was established under an act of March 8, 1920, to which all importers had to apply to obtain import licenses. Without them no importing could take place. Shortly afterwards, the authority of the board was extended to cover all money transactions with other countries. Exporters were to furnish the board with details as to the use made of the foreign money obtained in payment for exports. All sales of foreign money through the banks came under the control of the board, as also money sent to other countries by post. The board was entitled to intervene and stop any remittances abroad or any sales of foreign currency which it might feel to be unnecessary.

In spite of these measures the situation grew worse instead of better. In the course of 1920 the number of ships purchased by Iceland was very much larger than ever before, the trawler fleet being more than doubled, which greatly increased the demand for foreign currency. Besides, several canceled orders for ships had involved considerable losses. Apart from ships, imports decreased somewhat in quantity. But while the prices of import articles rose to great heights the prices of exports were declining. Compared to 1913-1914, import prices in 1920 were averaged four and a half times higher, while export prices were only two and a half times as great. This anomaly, connected with the extraordinarily large purchases of ships, caused an enormous deficit in the balance of trade.

During 1920 the parity of Icelandic and Danish money was maintained, but with the result that the debts of the banks to foreign correspondents greatly increased. On account of the rationing of foreign money a large unsatisfied demand for the latter had accumulated; and it had become urgent, as Icelandic firms still had large bills to meet, or the amounts due had been paid into the banks in Icelandic currency to the account of foreign creditors. The restrictions applying to the transfer in foreign money of the amounts due made foreign creditors still more nervous and more anxious to get their bills exchanged for foreign currency even though an agio against Danish kroner had to be paid. But that was considered quite inadmissible, and both the banks and post office were forbidden to charge any such agio. But it was impossible for these measures to keep Icelandic money from falling to a lower value than the Danish. The latter, indeed, was sold by the banks at par all through 1921; but the banks limited the sales to the smallest possible amounts; and, accordingly, many money transactions took place outside the banks and at higher prices.

When it grew clear that difficulties had not been overcome by rationing foreign money, but rather increased, it was resolved that the state should raise a loan abroad. In August, 1921, such a loan, to the amount of £500,000 was raised in London. Though the loan was a great relief to the banks it nevertheless proved impossible to keep the Icelandic króna at par with the Danish. At the end of 1921 the sterling rate in Reykjavik was from 26 to 27 krónur; whereas it was 20.90 for Danish kroner. The nominal parity between Icelandic and Danish money had now evidently become quite untenable; and it was

finally abandoned when the prohibition on the charging of an agio for the sale of Danish kroner was abolished at the beginning of 1922. Rationing was also abandoned, and in June the banks began to give out daily quotations for sterling, dollars, and the moneys of the Scandinavian countries.

At first there was a plan slowly to increase the value of the króna by a gradual lowering of the sterling rate. And in the course of the summer of 1922 this did take place when sterling little by little was forced down to 25.60 (corresponding to a gold value for the króna of from 66 to 67 per cent of its former value) at which point it remained for three months. But this rate appeared to be too low, and in December the sterling rate had again to be raised. It rose the next year until on March 12, 1924, it reached its highest point 33.95 which corresponded for the Icelandic króna to a gold value of about 47 per cent of par.

In general opinion its depreciation was a calamity, and everything possible ought to be done to raise its value again. Recourse was now had to most of the remedies tried or proposed elsewhere under similar circumstances, such as sterling loans, restrictions on imports, additional duties, and reduction of the national expenses. In March, 1924, the tide at length turned and again the króna began to rise. Perhaps the measures taken by the public contributed somewhat. But the chief reason was no doubt the extraordinary improvement in the state of the market that had now set in. The price of exports had risen greatly. Fishing was unusually good. And, accordingly, exports were also greater in quantity than ever before. The result was a favorable trade balance that was exceedingly large. It amounted to kr. 22,500,000. Bank debts due to foreign correspondents that at the beginning of the year had amounted to kr. 22,500,000 were wholly wiped out by the close of the year, and the bank balances then showed, instead, assets abroad totaling kr. 3,300,000. Sterling had fallen to 28 in terms of krónur. But since, at the same time, sterling itself had risen, the gold value of the króna had, in the course of nine months, risen from 47 per cent to 63 per cent or by over a third. The increase would have been still greater if attempts had not been made to check it by increasing the note circulation.

The effects of the good market conditions in 1924 also lasted into the following year, which, though not nearly as favorable as the one before, was, none the less, excellent with ample production and good

prices for exports. There was, accordingly, a favorable balance of trade that was large, though scarcely half as great as that of the preceding year. During the first six months of 1924 sterling fell slowly; but, in the autumn, a very violent decline again took place, which, at the end of October, stopped at 22.15—a rate that has successfully been maintained ever since. This meant that the króna had reached 81½ per cent of its gold value. It had thus, in nine months, risen by about 30 per cent, that is, by virtually 75 per cent in eighteen months. It was inevitable that the drawbacks linked with such an increase in the value of the country's monetary unit should be severely felt by Iceland's business men, the more so as the favorable market was now giving place to a very bad state of affairs, with low prices for the most important export commodities. At the same time production costs were high; for though the króna was rapidly rising, the fall in domestic prices had been slow—only 13 per cent on an average while the króna had made its 75 per cent increase. Since then the price level has steadily, though very slowly declined; and it is doubtful whether as yet (in 1927) it has adjusted itself to the gold value of the króna.

Until 1924 it was generally agreed that not only ought a further decline of the króna to be prevented, but an effort should be made to raise its value. But to many the violent rise in 1924 caused too much suffering. In the Althing, in 1925, it was urged that the appreciation of the króna ought to take place slowly; but the rise in the autumn of 1925 nevertheless became more rapid and violent than ever. Among the industrial classes, who were hard hit by it, it caused much rancor, and in the Althing in 1926, a motion was made calling for measures for a definite reduction of the króna's gold value. While this motion was not passed, it was the ruling opinion that its value must at least be kept from going any higher, and it has been kept at the point in question ever since. But the problem of the final solution of Iceland's exchange problem is still unsettled.

CHAPTER VI

STATE AND MUNICIPAL FINANCES

In years before the War, state expenditures were steadily increasing, and in 1913 they had amounted to more than kr. 2,000,000. During the first years of the War the increase became more rapid because of increases in prices and the course of events, so that the total expenditures were upward of kr. 3,000,000 in 1916. But the revenues more than kept pace. After 1916 an extraordinary dislocation in the state finances took place. Expenditures rose at a furious rate, and reached kr. 12,400,000 in 1920, i.e., four times the total for 1916. The reason for this enormous increase was, in addition to the general rise in prices, certain measures taken on account of the high cost of living, the carrying out of various public works, etc. In every year from 1917 to 1923, inclusive, with the exception of 1919, there was a deficit on the national budget of from kr. 2,000,000 to kr. 2,500,000. It was of no avail to pass a whole series of tax bills—some of them to introduce new taxes, and some to increase those already existing. The bad state of trade neutralized their effects.

In the Althing, in 1924, great efforts were made to balance the budget by raising the existing customs duties and by introducing new ones. But at this time better conditions set in, and for that reason returns from the customs duties had been growing. The result was a surplus of upward of kr. 1,500,000. The effect on the state income of the good market conditions was not really felt till 1925 when the revenues rose to kr. 16,000,000, while expenditures were scarcely kr. 11,000,000. That is, there was a surplus of kr. 5,000,000. In 1926, however, the revenues and the expenditures just balanced, with kr. 12,500,000, respectively.

In 1917 the State went into business in earnest. While at the end of the three preceding years of activity, it had only kr. 600,000 invested in the Government Stores, it invested kr. 8,500,000 in them during the years 1917-1918. Furthermore, ships were purchased, at a cost of kr. 3,500,000. To meet these amounts, as well as the deficit in the budget, loans were raised. The national debt, therefore, increased enormously, from scarcely kr. 3,000,000 at the end of 1916 to about kr. 20,000,000 at the end of 1918; and at the close of 1923

it still amounted to kr. 18,000,000. That it was not higher considering the large annual deficit during this period was due to the fact that capital was at the same time withdrawn from the Government Stores, and by it the deficit was met in part. But when at length good years came, in 1924 and 1925, almost all the surplus was used to reduce the national debt, which, in these two years dropped by more than kr. 6,000,000, and amounted to kr. 11,700,000 at the end of 1925.

The national debt remains, indeed, many times greater than it was before the War. But at that time it was very small; and the assets of the State have simultaneously increased, and even more rapidly. They are now more than kr. 30,000,000 or more than 2½ times the amount of the national debt.

The finances of the municipalities have undergone a similar development since the beginning of the War. While the total expenses of the municipalities in 1914 amounted to less than kr. 1,500,000, they had in 1925 grown to kr. 5,800,000. Municipal debts have also increased enormously. In 1910 the total was kr. 1,900,000. But in 1925 it had grown to kr. 10,200,000. In this case too, however, it is true that the indebtedness was largely incurred for productive purposes. Increased public activities are brought about not only at the expense of future generations, by an increase in the debt, but the present generation has also to shoulder its share in the shape of increased taxation. Thus, a tax total, in 1914 of kr. 27 per individual had, in 1925, become kr. 158.

CHAPTER VII

AGRICULTURE AND FISHERIES

The War meant a great increase in prices in the case of all the most important agricultural exports. It was not felt so much or at once, in the autumn of 1914; but it was felt all the more in 1915. Especially high were the prices of wool. They were from two to three times what they had been in the previous year. And meat prices were likewise very good. Since the weather was unusually favorable, it was, on the whole, an excellent year for agriculture. The year 1916 was also a good year. But a decline had begun. The price of wool was lower than the preceding year, and the prices of other products of agriculture not very much higher; while on the other hand prices of all imports were much higher, and wages were increasing.

The disparity between the prices of export and import commodities needed or produced by agriculture became still more glaring during the last years of the War (1917-1918). On the whole, things were very difficult for the farmer, not only for the above reason but also because of weather conditions that were now unfavorable. The year 1918 was especially bad in that respect, the winter being unusually long and severe, with lower temperatures than had been known for years. Add to that, in the summer, a very bad crop failure, and finally, a volcanic eruption in the autumn, the shower of ashes from which covered almost the entire country.

During 1919 and 1920 the weather was also very bad for agriculture. The winter 1920 was particularly long and severe. The trend of prices was still unfavorable, as increases in the prices of exports were always less on an average than increases in import prices. Still this difference was not so great in 1919, during which year export prices reached their maximum. But in 1920 they started to fall again, while import prices, during the same period, continually rose.

The fall in the prices of the exported products of agriculture during following years continued to weigh on it. In 1922 the lowest level was reached; but in 1923 things looked somewhat better. The years 1924 and 1925 were on the whole quite good, with high prices. Still the rapid rise of the króna in 1924, and especially in 1925, meant some difficulties for agriculture.

In the fisheries, the outbreak of the War was a highly disturbing factor. Poor communications with other countries made it difficult to supply the fishing fleet, at a date sufficiently early, with its necessities, that is, with tackle, coal, gasoline, barrels, packing materials, etc. And, besides, the prices of all these things were increasing greatly. But on the other hand the increases in the prices commanded by fish products were still greater, and the catch was good, so that profits during the first years of the War (1915-1916) were very high, the trawler companies paid good dividends, and in addition they were able to put large amounts aside. The herring fisheries also yielded large profits during the same years. The quantity of Iceland herring taken in 1915 doubled, and doubled again in 1916, a fact due in part to the fish being more plentiful, and in part to the increased number of fishing boats. Moreover, the increase in 1915 in the price of herring was particularly great.

The prosperity of the fisheries led to the formation of many new companies, and those already in existence sought to extend their activities. But it was very difficult to procure ships from abroad, and the trawler fleet could not be added to during the war years. However, a great number of motor boats were obtained. From 23 in 1914 their number rose to 117 in 1917, though after that time there was a pause in such an expansion.

In 1917 bad times came. The difficulty of procuring supplies increased still more, and many motor boats were even obliged to stop fishing for a time owing to the lack of petroleum. Working expenses increased at a rate hitherto unknown. The prices of fish products, as fixed in advance by an agreement with Great Britain, were, indeed, higher than those of previous years, but not proportionately to the increase in expenses. Moreover, the catch of cod was much smaller than that of the previous year, and results in the herring fisheries were still worse. When, therefore, the French offered to buy Icelandic trawlers at prices much higher than their first cost, ten, or half of the country's fleet were sold; they brought kr. 4,500,000.

In 1918 much less fishing was done; but in 1919 the trawler fleet was once more increased. The increase in 1919 was, indeed, not very large, but several new fishing companies were started; orders were placed both in England and Germany for the building of additional trawlers; and inquiries were made looking to the purchase of old boats. But the latter were most difficult to get, with prices very high

and on the increase. Fishing was good in the case both of cod and herring. But the sale of the year's catch dragged; and at the end of the year a large quantity remained unsold. As prices were falling, losses were very heavy. When, in 1920, there was a great expansion of the trawler fleet, the fisheries were on a bad economic basis. Prices were still falling seriously, while working expenses were increasing, and the boats purchased had been bought at exorbitant figures. A few succeeded in canceling the purchase contracts by accepting a loss. But the trawler fleet had, nevertheless, been more than doubled in a year. It increased from thirteen in 1919 to twenty-eight in 1920. As was to be expected, the result was very bad.

The following years were also hard ones for the fisheries, in spite of the fact that the catch was increasing. Fish prices continued their fall, while expenses remained high, and only with difficulty could they be reduced. But in 1924 there was a change, as fishing was unusually good, and, at the same time, there had been a marked rise in fish prices in foreign markets. Fishing, therefore, yielded exceedingly good profits on the whole, in spite of the great current rise in the value of the Icelandic króna. Profits, however, were not, wholly, applied to consolidating the trade. Indeed, the result had been new and great enlargements of the fleet. The good business position of the fisheries was, therefore, somewhat shaken even in 1925, for in that year prices fell considerably. As the fall continued in 1926 things were made much worse. Then, in 1927, the catch was large, fish prices rose, and conditions were good once more.

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Abbreviations used in this Index are as follows:

D Denmark
I Iceland
N Norway
S Sweden
Ger. Germany
Gr. Br. Great Britain

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